INDIAN ECONOMY DURING THE WAR

Banaili Readership Lectures

BY

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from
Prof. V.K.N. Men

"India tugs at our heartstrings in thousand different ways—her every mood holds us in willing thraldom; she charms us by her beauty and her splendour; in her lap have we been born and brought up, and there let us lie as in a mother's bosom."

—Sir Manohar Lal.

To

MY COUNTRY

PREFACE

The six chapters of this book contain the substance of six lectures on Indian Economy during the War which I delivered in the University of Patna in 1942 and 1943. I have since recast all the lectures so as to bring them up to date.

From times immemorial man has wished to abolish war, but war is still with us and there is nothing to suggest that it shall be abolished in the future. It is necessary, therefore, to live in such a way as to get the best out of life whether in peace or in war. This is not possible without political freedom nor without an adequate and appropriate economic and social structure to stand the stress and strain of all times.

India is striving, as she must strive for freedom and she also wishes to plan her economic system best suited to her requirements and her resources. This must proceed on study and investigation on a comprehensive basis. I am indebted to the University of Patna for providing me with an opportunity of undertaking such a study. The problems are vast and one's capacities limited. The results of this study are presented in the hope that they may possibly serve to stimulate further investigation with a view to clarifying the varied issues and aiding in the ultimate solutions.

I am most grateful to Sir Manohar Lal, Dr. E. D. Lucas, Professor C. L. Kapur and Mr. D. K. Malhotra for many valuable suggestions. I am also indebted to my pupils Messrs. V. K. Chopra and Tara Chand Jain and to Mr. Ram Labhaya, Librarian of the Punjab Public Library, Lahore for much kind assistance.

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UNIVERSITY OF THE PANJAB,
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"The well-being of a people is like a tree; agriculture is its root, manufactures and commerce are its branches and leaves; if the root is injured, the leaves fall, the branches break away and the tree dies."—*A Chinese Philosopher.*

I. WAR AND INDIAN AGRICULTURE

1. *Importance of the Problem.*—The first problem to consider is one of the utmost importance to India—the effect of War on Indian agriculture. For ages, agriculture has been the base of all material and moral progress and anything which affects agriculture affects the whole life of the people in India. The total national dividend of India before the war was estimated at Rs. 2,200 crores of which the net income from agriculture was Rs. 1,200 crores, the contribution from industry being Rs. 375 crores only. The problem of war-time agriculture can be viewed in various aspects: production, consumption, distribution and, above all, the effect of war on the whole agricultural (rural) population. But, however viewed, the best approach to the subject is first to review the position of Indian agriculture prior to the war.

2. *Indian Agriculture Prior to War—A few Impressive Facts.*—Before the war broke out in September, 1939, India occupied no mean place on the map of world agriculture. She led the world in the production of rice, as she did in the production of sugarcane. Of wheat as well as tobacco she was the third largest producer in the world, while in the production of raw

cotton she was second only to the United States of America. Taking oilseeds, she stood first in the production of rape-seed and third with regard to linseed. Of jute she enjoyed a virtual monopoly, contributing 99·5 per cent. of the total world production. As for beverages India produced both tea and coffee, her exports of tea during the three pre-war years 1936-37 to 1938-39 being on an average about 328 million pounds per year. In the quantity of fruits she was poor but, in their variety, perhaps no country could claim to be richer. Besides, with one-third of the world's cattle population,* India held a record in it and with nearly 30 crores of the human population dependent on agriculture,† no country in the world could beat her in numbers.

3. *Disquieting Features.*—These are impressive facts which could not be mentioned without some pride. But pre-war agriculture in India, unlike England or U.S.A., had a number of disquieting features of which the worst was the extremely low return which the various agricultural occupations yielded to their followers. With no expansion worth the name in the area under cultivation, with no improvement in the fertility of land, with unusually low yields of crops per acre and with prices below costs of production, Indian agriculture was far from being a flourishing industry. It was, as the Royal Commission on Indian Agriculture put it, at best a mode of living. The peasant, unmindful of his current losses or accumulating indebtedness, just carried on, because he had no other choice. The Great Depression of

*But half of the Indian cattle were probably a liability.

†The *Census* of 1941.

1929, when the prices crashed, had dealt the severest blow to the Indian peasant and, ten years later, when the war broke out, he, at any rate, was not prepared for it.

4. *Stabilisation of Area under Cultivation.*—During the two decades, between the two Wars, the population of India had increased by about 27 per cent., but the area of land under cultivation had risen hardly by 2 per cent. It was in British India about 206 million acres in 1920 and 210 million acres in 1939-40. Nor was the position any different in Indian States, although accurate statistics are lacking. Taking 1891 as the base year representing 100, Sir Manilal B. Nanavati, in a learned paper,* recently calculated the index of population in British India (excluding Burma) to have moved up to 138 in 1939-40. The index of land under cultivation rose to 119 only, while the area under foodgrains was even lower at 114.

Since 1926, however, the limit of extensive cultivation has remained practically stable for nearly two decades. It did rise to 214 million acres in 1936-37, but it receded to 209 million acres in 1938-39 and was no more than 210 million acres in 1939-40. Nor did the proportion of population dependent on agriculture fall, or the proportion of land under foodgrains improve during the period 1920-40; it remained much the same with hardly a deviation of any moment. Of the total cultivated area in 1939 about 80 per cent. was under food crops (75·5 per cent. being under foodgrains) and 20 per cent. under non-food crops (7·7 per cent. under fibres, 6·7 per cent. under oilseeds and 4·2 per cent. under fodder crops).

***The Rural Problem of India,* "Bombay Co-operative Quarterly," July, 1943.

5. *Declining Fertility of Land.*—But an increasing population can be fed, even if the area of land under cultivation cannot be extended, provided land is improved in yielding power. Some experts are of the view that the average fertility of the land has fallen in our country. According to the Agricultural Commission (Report, Para 77): "Such experimental data as are at our disposal support the view that, when land is cropped year by year, and when the crop is removed and no manure is added, a stabilised condition is reached; natural gains balance the plant food materials removed by crops and other losses and no appreciable changes are to be expected in the outturn of crops except those due to changing seasons, provided that the same system of cultivation is adhered to. While the paucity of records of crop outturn throughout India over any long period of time makes the matter impossible of exact proof, we are of opinion that the strong presumption is that an over-whelming proportion of the agricultural lands of India long ago reached the condition to which experimental data point. A balance has been established, and no further deterioration is likely to take place under existing conditions of cultivation." The same complaint that the fertility of land was declining was urged before Sir John Russell in 1937 who suggested that the matter be investigated.* A scientific survey of land in India was long overdue.

The cultivated area under irrigation, however, did improve in the two decades from 45·6 million acres (average of 1920-25) to 54·9 million acres in 1939-40, but at that rate it would need 200 years to bring the remaining area dependent on rain alone under irrigation.

**Report on the Work of the Imperial Council of Agricultural Research*, by Sir John Russell, 1937, p. 24.

About three times the irrigated area in the country was still in 1939 exposed to the vagaries of rainfall. Moreover, there had been considerable wastage of land due to soil erosion. This particularly took place in the United Provinces, where villages once surrounded by valuable, fertile fields now lie in a network of ravines carved out of the soft mud of the Jumna by over-cropping and over-grazing conditions of uncontrolled drainage.*

6. *Low Productivity.*—In view of the foregoing factors it is not altogether a matter of surprise, although it certainly is a matter of much regret that, according to such official statistics as are available, the yield of most agricultural crops per acre, instead of rising, appears to have fallen during the last forty years. To illustrate, the yield per acre of wheat in the Punjab was 816 lbs. in 1906-07, 856 lbs. in 1921-22 and 809 lbs. in 1941-42. Figures of other years† could be given, but the result is not different. It is possible that these statistics are unreliable, but who could deny that the pre-war and present yields of foodgrains in India compare most unfavourably with those of other countries. To take an instance, in India the outturn of rice per acre is 1,357 lbs., in Italy it is said to be about 4,601 lbs., in Egypt 2,356 lbs., and in the U.S.A. 2,112 lbs. In India about 74,000,000 acres are sown to rice and in the U.S.A. perhaps 2,000,000 and in Italy still less. When such large areas are involved as in India, the average outturn is likely to be low, but it could and should have been much greater than it actually was. Even if there were not much scope for bringing more land in India under foodgrains—in itself

**The Land and its Problems*, by Sir T. Vijayaraghavacharya, 1943, p. 22.

†Statistics compiled in the office of the Imperial Council of Agricultural Research.

a doubtful proposition—there certainly was no lack of scope to increase the total production of foodgrains by increasing the yield per acre.*

Thus, neither in the matter of extension of area nor in the matter of improvement of yield, Indian agriculture had much to show, when the war broke out.

7. *Crisis of Fall in Prices.*—Coming to prices there was a particularly heavy fall in agricultural prices in India between the years 1929 and 1933. This was a period of World Depression from which India never really recovered until the outbreak of war in September, 1939. Taking the index numbers of wholesale prices (July 1914=100), the index number of cereals had come down to 66, of raw cotton to 50 and of raw jute to 41 in 1933. They did improve to 77, 89 and 56 respectively by 1937, but receded to 72, 67 and 49 in the following year. Taken as a whole, the decade 1929-39 saw the peasant's income considerably reduced and the burden of rural debt and Government dues became more than he could bear. There were large-scale sales of gold and ornaments and there was wide spread agrarian discontent throughout the country.† With sugarcane selling at as low a price as 3 as. a maund in some areas in the United Provinces (in 1937, when even 4 as. was not considered a remunerative price by the Sugar Tariff Board)‡, wheat at about Rs. 2-4-0 a maund and *desi kapas* at less than Rs. 5, Indian agriculture prior to the War was far from being remunerative. The Indian peasant was not

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*It can be said on the authority of agricultural experts that the cultivation of rice in India is at present undermanured and what applies to rice applies to wheat and other foodgrains as well.

†The best account of the crisis is contained in Professor Brij Narain's *India Before and Since the Crisis.* Allahabad, 1939.

‡*Report of the Indian Tariff Board on the Sugar Industry*, 1938, pp. 40-41.

earning even decent wages for his labour and a real surplus above essential cost of production (out of which he was supposed to pay the land revenue) was out of the question.*

8. *Unpreparedness for War.*—About the same time (1938) the international atmosphere was charged with the apprehension of a second World War. It was well known that Germany, Japan and Italy had been planning for war, while England and the United States were planning for peace. From the economist's standpoint Russia was the one big country which had been preparing, both for peace as well as war, just as India perhaps stood alone in preparing herself for neither. That India had no agricultural policy or plan worth the name was apparent to the Royal Agricultural Commission of 1928. That she had none ten years later is apparent to every one now. What is not easily understood, however, is the deplorable fact that nobody bothered to have an all-India agricultural plan suited to war requirements, even when the war broke out in the West in September, 1939, not even when Japan occupied Burma and threatened to invade India.

9. *Spurt and Speculation.*—In the first few months following the outbreak of war, it appeared that the clouds of depression that had gathered thick on Indian agriculture would be dispersed at last. Prices of raw materials and foodstuffs rose and an increased demand for export of commodities like raw jute and oilseeds manifested itself. There was complete unanimity among the Government and the leaders of public opinion that nothing should be

*Prof. Brij Narain, *op. cit.*, p. 381.

done to prevent the agriculturist from coming into his own. There was a definite under-current of thought that it would be undesirable to apply any brake to agricultural prices until they attained pre-depression, *i.e.* pre-1929 levels. The first Price Control Conference called in October, 1939, for example, came to the conclusion that no check should be put on the rise in agricultural prices.

There can be no doubt that part of the early rise in prices was speculative in character. Reaction was inevitable. But if the war had not entered the depressing phase which it did after the débâcle in Norway in April, 1940, both export trade and prices might not have taken a downward course. There was, of course, the tendency towards the inevitable shrinkage of the markets in agricultural commodities operating before the war, but the increased war demand from the allied and neutral countries could have filled the gap or at any rate sustained prices, if it did not actually stimulate Indian agriculture.

10. *Shrinkage of Markets.*—As it was, the difficulties, of shipping, and even more so the coming of one country after another under the heel of the enemy and the spread of war by Japan in the East, reduced the area to which exports from India were possible or permissible. India's loss of trade with Europe alone amounted to over Rs. 30 crores, or one-sixth of her total overseas trade.* On the basis of 1938-39 figures of value the commodities most affected were groundnuts (Rs. 8 crores), raw jute (Rs. $7\frac{1}{2}$ crores) and raw cotton (Rs. 6 crores) in that order, which, among them, accounted for a loss of about Rs. $21\frac{1}{2}$

**Report* by Dr. T. E. Gregory and Sir David Meek on Prospects of Indian Trade with the United States of America, 1940, para. 34.

crores. The loss to India's export trade with Japan was roughly Rs. 14 crores of which raw cotton was responsible for Rs. 11 crores, since Japan took half of India's raw cotton. The stoppage of so much trade could not take place without serious consequences to India's agricultural economy.

11. *The So-called Agricultural Surpluses.*—The first important problem in India arising out of War was thus of the so-called agricultural surpluses with consequential adverse effects on agricultural prices and, therefore, on the agriculturists. The commodities which suffered most were jute, raw cotton and groundnuts. Taking 100 as the pre-war base (19th August, 1939) the index number of jute prices was 247 in January, 1940, and 86 in October, 1940. The index number of the prices of raw cotton was 186 in January, 1940, and 110 in June, 1940, while that of groundnuts was 110 in January, 1940, and 75 in January, 1941.

12. *Alternative Remedies.*—The question naturally arose how best to dispose of the agricultural products whose export to former customers in Europe or Japan was no longer possible. Four alternatives were available :

1. A search for alternative markets—at home or abroad.
2. A search for substitute crops.
3. Reduction of the area under cultivation.
4. Storage with a view to sale or disposal at a future date.

A search for alternative foreign markets was obviously the least promising of the various remedies, not only because of increasing shipping difficulties, but because of the shift from peace to war economy in

almost all countries of the world. The Government of India deputed Dr. (now Sir) T. E. Gregory and Sir David Meek to go to the United States of America to investigate the prospects of finding fresh markets in North and South America. Their study revealed that the chances of obtaining effective substitute markets for Indian produce abroad were very small. It became evident at the end that for alternative markets India must really turn to her own industries at home, and explore new uses for her raw produce.

As regards substitute crops, the Government could do much by inducing the farmer to grow less of some crops, say short-staple cotton, and more of others, say wheat. Such inducement could be made really effective by means of State guarantees of prices and State subsidies.

If the surpluses of agricultural produce could not be absorbed in alternative markets, the only remaining alternatives were curtailment of the acreage under cultivation and the storage of surpluses. In a country like India with millions of small, scattered holdings, it is an extremely difficult task to enforce any scheme of crop planning, while the storage of surpluses is an almost impossible proposition from the financial standpoint. During the great Depression of 1929-33, several countries instituted "controls" and "pools" in a number of commodities to break the speed of falling prices, but so heavy became the financial strain of operating them in the face of continually falling prices that huge held-up stocks of commodities had to be thrown on the markets, bringing down the prices with a crash. The very knowledge of the existence of

accumulated surpluses acts as a drag on prices. The practical difficulties of storing surpluses in India were almost insuperable so long as the marketing organisation was not very strong and warehousing facilities inadequate and well-organised system of agricultural credit lacking. But purchase and storage by the Government of a part of agricultural surpluses, if supported by the enforcement of a scheme of restriction of crops, could certainly help in the alleviation of the situation.

13. *Remedies Tried.*—The problem to be dealt with was thus complex and many-sided and no quick or easy solution could be applied. The case of each commodity had to be examined separately and a solution sought in a judicious combination of the various measures indicated above. Generally speaking, the two-fold remedies adopted were : to turn more to the home market and less to the overseas markets and to look more for substitute crops and less for substitute markets.

In the case of jute the problem was sought to be solved by restricting the cultivated area under jute in 1941 to 46 per cent. of that in 1940*. This coupled with war-time orders led to an appreciable improvement in the index number of prices from 86 in October, 1940 to 182 in September, 1941. There was, however, a drop to 145 in December, 1941. The surplus of raw cotton in the country being confined to short staple only† the problem was met partly by growing less of

*For 1942, Government of India agreed to a reduction of the total acreage under jute in Bengal from $\frac{5}{8}$ to half of the 1940 acreage. For 1943 the area was fixed at 50 per cent. of the area in 1940, as amended in 1941.

†For instance the estimated carry-over of Bengal's Comras (short staple) cotton was 756,000 bales at the end of the season in 1940 and 1,471,000 bales on 31st July, 1941.

short staple* and more of the long staple variety and partly by procuring greater consumption of short staple cotton by Indian mills. In this regard Government had diluted their specifications for goods required by them so as to facilitate the utilisation of short staple cotton in their production. The index number of prices of raw cotton recovered from 110 in June, 1940 to 166 in July, 1941. In the case of groundnuts, researches by finding profitable uses increased their demand within the country to the extent of 600,000 to 700,000 tons† and the price index number of groundnuts improved from 75 in January, 1941 to 117 in August, 1941 and 119 in the week, ending 6th December, 1941.

14. *Shortage of Foodgrains.*—Worse than the problem of agricultural surpluses, however, has been the more recent problem of the shortage of foodgrains. The following table gives the yield of major foodgrains in India during the period 1929-30 to 1939-40.

YIELD OF MAJOR FOODGRAINS (IN THOUSAND TONS) IN INDIA:‡

Year	Rice	Wheat	Barley	Jowar	Bajra	Maize	Gram
1929-30 ..	26,146	10,469	2,293	6,878	2,284	2,409	3,051
1930-31 ..	27,055	9,306	2,392	6,928	2,583	2,362	3,400
1931-32 ..	28,799	9,024	2,388	6,149	2,673	2,229	3,766
1932-33 ..	26,201	9,455	2,351	6,412	2,598	2,110	3,439
1933-34 ..	25,733	9,370	2,411	6,138	2,128	1,869	3,737
1934-35 ..	25,706	9,729	2,517	6,255	2,549	2,252	3,629
1935-36 ..	23,213	9,434	2,330	6,159	2,681	2,232	3,840
1936-37 ..	27,828	9,752	2,313	7,098	2,433	1,946	4,115
1937-38 ..	26,699	10,764	2,088	6,506	2,625	2,117	3,525
1938-39 ..	23,962	9,963	1,854	6,463	2,504	1,874	3,002
1939-40 ..	25,734	10,767	1,984	6,591	2,474	2,223	3,294

*"Considerable progress was made in reducing the cultivation of cotton, particularly of short staple variety, the acreage and yield of which for 1942-43 was *lower* by 22 per cent. and 26 per cent. respectively than in the previous year." *Report on Currency and Finance*, 1943, p. 11.

†*The Commerce*, Calcutta, 22nd November, 1941.

‡Compiled from *Estimates of Area and Yield of Principal Crops in India*, 1940-41, 1942.

It will be seen that excepting wheat, bajra and gram, in the case of the other foodgrains the yield in 1939-40 is less than that in 1929-30. Even for wheat, bajra and gram the increase in total output is insignificant.* What is significant, however, is the fact that while the total output of foodgrains in 1929-30 was 53,530,000 tons and in 1930-31 it was 54,026,000 tons, in 1939-40, instead of increasing, it had fallen to 53,067,000 tons.

The figure for 1940-41 was still lower at 50·2 million tons. Thus during the decade the production of foodgrains fell by nearly 4%, while the population of India rose by 15% (from 338,119,000 in 1931 to 388,800,000 in 1941).

This would suggest that the Malthusian Law of Population was in operation. But nobody bothered except a few economists† led by Dr. Radhakamal Mukerji who did point out that the pre-war production of foodgrains in India, even when supplemented by imports and protective foods fell short of the nutritional requirements of the country. Dr. Mukerjee estimated for India a food deficiency for 12 per cent. of the population in a year of normal harvests.‡ According to the latest findings of the United Nations Conference on Food and Agriculture held at Hot Springs in the first week of June, 1943, three-quarters of the 1,150 million inhabitants of Asia§ were living below decent health standards and of them India had probably the largest share.

*Indeed, if the statistics are reliable, the output of these foodgrains taken together was greater in 1937-38 then in 1939-40.

†Indian economists were dubbed as mere theorists with idle theories. According to Sir James Grigg most of them were either capable of producing text-books only or were politically biassed. (See *Indian Legislative Assembly Debates*, 1937, Vol. VII, p. 3248).

‡*Food Planning for Four Hundred Millions* by Dr. Radhakamal Mukerjee, 1938, p. ix.

§*Hot Springs: A Summary, The Economist*, London, June 12, 1943.

In 1941 was launched a grow more food campaign in the country, but it did not result in any material addition to the production of food at home. The total production of foodgrains in 1941-42 was actually less than that in 1939-40. In 1942-43 the home production did improve by about 2 million tons, but reduced by the net exports of 361,000 tons, the total supply left was still in defect of that in 1939-40 in which year there was a net import of foodgrains exceeding 2 million tons.

15. *Decline in Imports.*—During the three years preceding 1939 the net imports of foodgrains into India averaged 1½ million tons. With the progress of War, imports of foodgrains fell continuously, due first to the shipping difficulties and then to the fall of Burma—the chief exporter of rice to India. The position so deteriorated that in 1942-43 India, instead of importing any foodgrains, became a net exporter of 361,000 tons. The amount exported was not large, but it was certainly exasperating that at a time when India was in sore need of imports of foodgrains from abroad, exports from the country should have been permitted.

16. *Deficiency in Protective Foods.*—In the mean time, the food position in India worsened by the acute shortage in the country of energy foods like milk, fruits and eggs. No reliable statistics of production or consumption exist, but the broad fact is indisputable that the war did send up the demand of these foods for the armies. At the same time, there was heavy slaughter of cattle for meeting the military requirements of meat. As a result, the civil population including invalids and children were even more deprived of milk and fruits than of foodgrains.

17. *A Complex of Circumstances.*—There was thus an undoubted shortage of food all over the country. The situation was aggravated by a complex of circumstances—some of which were unavoidable, but some were such as could and should have been avoided. Among the unavoidable circumstances might be mentioned natural calamities like widespread disease in the Aman paddy crop of western Bengal and the Cyclone of October, 1942, war-time curtailment of transport facilities, Government purchases for military requirements, keeping of slightly more food for their families to eat by underfed peasants, who were unable to buy consumers' goods, and some holding of stocks by consumers due to fear of invasion. Among the avoidable catastrophes were uncontrolled inflation, bottlenecks in transport arrangements, half-hearted and haphazard controls of Government over commodities in different parts of the country, lack of co-operation between the Central and Provincial Governments and between the Government and the people, and the country-wide activities of the profiteers.

Thus inflation was not, as is wrongly supposed, the sole or even the chief cause of the food crisis, although it worked havoc inasmuch as it contributed to the rise in prices and stimulated hoarding goods for the sake of safety as well as profits.

18. *Profiteering yb Governments.*—At the same time several surplus provinces—notably Sind and the United Provinces tried to make capital out of the War in sales of foodgrains to the deficit provinces. In Hapur, the principal grain market of the United Provinces, the price of wheat was for a long time Rs. 3 to

Rs. 3-8-0 higher than in the Punjab, and at one time the price of wheat was raised to Rs. 16 per maund f.o.r. Howrah. The United Provinces Government, if Press Reports are correct, also charged Rs. 3-2-0 per maund as export permit fee for *gur* and Rs. 4 per maund in the case of edible oils. In Sind, the provincial government bought wheat at a pegged rate of Rs. 7 per maund and sold it to deficit areas on the same rates as the Punjab, pocketing the difference of Rs. 3 to Rs. 4 per maund with the knowledge of the Government of India. The purchase price of rice of the Sind Government was Rs. 10 per maund and its sale price at first Rs. 13 per maund and then Rs. 17 per maund.

But, bad as it was, for any provincial government to be making enormous profits on the export of food materials to famine-stricken Bengal, it is unimaginable that the Bengal Government itself was engaged in making profits in callous disregard of the loss of human lives in that unfortunate province. The price paid by the Bengal Government for *atta* and *maida* purchased in the Punjab was Rs. 11-3-0 and Rs. 14-8-0 per maund on an average and their official prices in Calcutta were Rs. 17-8-0 and Rs. 20 per maund respectively, when landed in Calcutta they should not have been more than Rs. 12-9 and Rs. 15-4. Similarly profits were made on the purchase and sale of wheat not only by the Bengal Government but by middlemen and millers at a time when a large number of people in Bengal were reduced to the position of destitutes. No wonder that the Special Staff representative of the *Statesman* observed: "In Bengal, the administration became paralysed under a political regime rotten to the core." (*The Statesman*, 2nd January, 1944).

Nor did the Government of India themselves appear wholly free from blame. The average price paid by them for wheat purchased from the Punjab did not exceed Rs. 10-8-0, the pool price charged to deficit provinces was fixed at Rs. 11-10-0. Compared to other provinces the Punjab Government acquitted themselves most creditably (the Government made no profits where profits could have been easily made), but from this it does not follow that every one in the Punjab is an angel. The big landlords were in clover. It is sad to observe that for human greed and governmental follies combined, the Bengal famine will be hard to beat ; it has been rightly described as a man-made disaster.

19. *The Consumer's Plight.*—Never was the consumer in India in worse plight than in the summer of 1943. The whole country was parcelled out into innumerable black* markets in which the ordinary consumer was entirely at the mercy of the unscrupulous profiteer. The price of wheat which stood at Rs. 2-4-3 per maund in Lyallpur in March 1939 rose to Rs. 11 there in the summer of 1943, while wheat sold at Rs. 15 to 20 in Bengal and Rs. 25 to 30 in Bombay ! The price of rice went up to Rs. 40 per maund†, while in some parts of Bengal the prices reported were as high as Rs. 80 per maund or even higher. How then was it possible for people of small incomes in these areas—and most people in India have only small incomes—to buy food, how could they avoid starvation ? In Bengal, hundreds of thousands starved to death.

*Presumably so called, because of the shady character of the transactions often carried out in the dark.

†"Yesterday (Oct. 10, 1943) I visited a large local bazar. The wholesale price of rice was Rs. 25 in the police compound, Rs. 26 a few yards away and Rs. 32 at the far end of the bazar." (Mr. C. T. Cramphorn, Karimpore, South Sylhet in a letter to the *Statesman*, Delhi, November 5, 1943, p. 2.)

20. *Foodgrains Policy Committee.*—Realising the gravity of the situation the Government of India appointed the Foodgrains Policy Committee* in July, 1943, which submitted its Report in September, 1943. The Report has since been published. The Committee, for the first time evolved a comprehensive plan of food production, procurement, distribution and prices on an all-India basis. Immediate and substantial increase of food supplies was the first and foremost need of the country. But obviously it was not possible to increase the production of foodgrains at home from say 50 to 60 million tons overnight. The recommendation on which the Committee set the highest store was to import $1\frac{1}{2}$ million tons of foodgrains *immediately* from abroad.

Fortunately, there was no lack of wheat in Australia and Canada, and both were willing to give it to India in sufficient quantities. In fact, Canada was even worried over her large stocks of surplus wheat. But the difficulty was one of shipping. In this connection the Foodgrains Policy Committee did point out: "It is incorrect to say that 'next' to the War, the food-problem is the most serious issue which faces this country. This is wrong: the food-problem is a part of the war-effort. Its settlement is as urgent as any that confronts the country in military terms." If only it were realised that saving the lives of the people from famine is the primary duty of Government, there should have been no lack of ships for importing food-

*This was probably the first Committee of the Government which sat over a month from day to day in Delhi—the winter capital of India—in the hottest period of summer and produced its report in an incredibly short time. It is also the first Committee whose report Government made available to the public at an unusually low price of eight annas per copy.

grains in sufficient quantities into India.* If enough food supplies were ensured, then surely, with proper distribution and control of prices people could be fed and saved from death.

21. *Emphasis on Increase in Home Production.*—Imports, however, could only serve as a palliative. As a real cure India should be able to produce all her food herself and, as a big agricultural country, she could even be in the position of a *net exporter* rather than a net importer of foodgrains. To this end India could have brought, at least for the duration of the War, all available pieces of land, big or small, in rural or urban areas under foodgrains, fruits and vegetables. But even more promising than extensive is intensive farming in the present conditions of the country. As pointed out before, the Indian farmers should have been helped with manure, better seeds and enough water to secure larger yields per acre.

22. *Position in the United Kingdom.*—It is a well-known fact that the United Kingdom before the war depended for 55 per cent. of her food supplies on imports. Notwithstanding all difficulties she is actually at present growing at home two-thirds of the amount of food she needs. And the war-time food ration of a Briton is said to be even more nourishing—albeit more monotonous—than the pre-war ration. For example, before the war, a member of the working class consumed 1,500 units of vitamin A daily, now he consumes at least 2,500 units, while a heavy industrial worker is allowed 3,000 units. According to Professor

*The problem was no different, and even graver for England. "For every shipment of beef, or butter or cheese that Lord Woolton—and the Allied Navies—brings in, sailors' lives are at stake. For every shipment he does *not* bring in, Englishmen's lives are at stake." (*The Fortune*, April, 1943). England made her choice, India could not.

J. R. Marrack, as a result of scientific rationing of food during this war an average British boy of 12 years is 2½ inches taller than in pre-war time and that an average British girl of the same age is 2 inches taller.* The Food Ministry of England is said to be the most efficiently run government agency in the world. No wonder that this Ministry under an eminent economist, Lord Woolton, has the support of nine out of ten British housewives and Lord Woolton himself enjoys a popularity second only to Churchill's.†

If with the reorganisation of her agriculture and with the help of the United States of America and Canada, the United Kingdom could ensure adequate food supplies for her nationals in the most difficult circumstances, the task of feeding her people well was certainly not beyond the competence of an agricultural country like India. Our main fault is that we have failed to look after the health of our land and cattle with the result that we are failing in health ourselves.

23. *Procurement and Distribution.*—Regarding distribution of foodgrains the most important practical suggestion made by the Foodgrains Policy Committee was that of rationing of the larger cities of India. There are 58 cities in the country with a population of 1 lakh and over, and 158 with a population of over 50,000. The Committee's recommendation which has been accepted by the Government of India, is to ration all cities of one lakh and over.

Rationing is nothing if not an effective control over the demand of the people and rationing of food ought to ensure adequate supply of necessary nutrition

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**Science and Culture*, Vol. IX, 1943, page 220.
†*The Fortune*, April, 1943.

in the case of every individual, even if it be not possible to satisfy individual tastes. As the British Minister of Food said in a Broadcast on 8th July, 1940 : "It's my business to arrange what food is brought into this country and what food is grown in this country, in order to secure that you'll eat those foods that are health giving. It isn't my business to provide for your tastes so much as your necessities."

In China, the Ministry of Food was established in July, 1941 as the central organ for the planning of food supply to the army and public functionaries, for balancing the supply and demand of the people and for the control of merchants, markets and prices.

24. *Need for Efficient Administration* .—Rationing involves, however, apart from technical issues, proper procurement machinery, transport facilities and good and honest administration. The Committee rightly laid the greatest stress on the subject of efficient administration. The Committee observed : "The solution of the food-problem does not consist merely in finding an adequate policy. Bad policy may be neutralized, to some extent at least, by adequate administration ; bad administration will wreck any policy, however good. And good administration in this connection calls not only for the normal qualities of assiduity and conscientiousness, but for something else. It calls for a realization of the fact that the lives of humble men and women and children, who cannot help themselves, are at stake. We feel that every Member of the Food Administration, in every part of India, should be inspired by the thought that upon *his* efforts, however humdrum and humble they may be, the life and happiness of his co-citizens depend." (*Report,* p. 128).

In all fairness it must be admitted that some officers of the Government have acted with the utmost ability and industry under what are no doubt the most trying circumstances. But the problems are new and vast, they are—most of them—not merely administrative, they are predominantly economic and psychological. They cannot be handled by mere administrators however efficient the administrators, as administrators, might be. They can be handled with success only by men who are equipped with the necessary knowledge of economic principles and technique, civil servants —not uncivil masters—who understand that they are "servants of the public".*

25. *Need for Control of Prices.*—Coming to prices, the Foodgrains Policy Committee pointed out, that prices of the foodgrains in the various markets in India to-day are the combined effect of the forces of supply and demand *and* administrative influences which are brought to bear on them.† So long as the processes of acquisition, distribution and consumption are influenced—as they indeed are at present—either directly or indirectly by Governmental action the choice is not between free or competitive prices and controlled prices, but the choice lies between one form of control of prices and another.

The Foodgrains Policy Committee by an overwhelming majority recommended the institution of statutory price control over all the major foodgrains

*Cf. "Without meaning any disrespect to any of the personnel hitherto charged with the administration of the Food Department, I would be failing in my duty if I did not emphasize the necessity for these being Indian, inspired by a spirit of service to their fellow countrymen, and preferably with experience of Provincial and State administration." Minute by Sir Purshottamdas Thakurdas, *Foodgrains Policy Committee Report*, 1943, page 159.

†Upon these, however, were super-imposed the effects of monetary inflation, crops of market rumours and the lack of popular belief, however founded, in Government's ability or determination to control price. See page 15 above.

in all Provinces and States. The minimum conditions necessary for success include effective procurement machinery, rigorous and drastic enforcement of the Foodgrains Control Order and of Anti-hoarding Measures, effective control over transport and the existence of a Central and also of Provincial and State reserves. At the same time, the Committee also recommended that a similar price control of an increasing number of non-agricultural commodities, particularly those necessary to the cultivator should be undertaken.

26. *Governmental Action.*—The Government of India lost no time in accepting the recommendations of the Foodgrains Policy Committee, because there was no time to lose if precious lives were to be saved. His Excellency Lord Wavell, immediately on arrival in India, paid a personal visit to Bengal and convened a Governors' Conference in New Delhi soon after. The military authorities were asked to lend a hand in coping with the ugly situation of people dying in the very streets of Calcutta. Both the transport department of the Government of India and the administrative machinery in Bengal were gingered up. Over 3,60,000 tons of grain were imported during 1943-44 and considerable quantities of wheat were sent by the Punjab to Bengal. Exports of foodgrains from India were altogether stopped except for very small quantities of *pulses* to meet military needs.

Schemes of rationing and price control are under way at the time of writing and inspite of initial opposition and the peculiarities of her position, the Punjab has agreed to fall in line with the rest of India so as to

make for the economic unity of the nation. These indeed are welcome signs, but by themselves they are not enough to lead to any rejoicing. The crux of the problem is that the country lacks adequacy of food and the people lack adequate purchasing power to prevent deaths from starvation and disease. "The only real cure is," as the *Economist* of London in its issue of October 30, 1943 (page 577) puts it: "an economic revolution in country and town as wide ranging and drastic as the modernisation of Russian agriculture by co-operative means and State capital. But even if the British in the last period of their expiring lease in India can do little more than scratch the surface, they can at least begin the process of reconstruction. In both this country and the U.S.A. principles of war economy give the bare necessities of civilian life as high a priority as munitions. In India the belt has been tightened with less than no slack to take in."

27. *War and the Agriculturist.*—Here a word must be said about the effect of War on the agriculturist himself. For, even far more important than agriculture is the agriculturist. Modern war, according to the Editor of the London *Economist,** means reduction in the standard of living to the minimum and it is equally true that in war an agricultural country fares much worse than an industrial country. War axes and taxes many useful and pleasant things of life, and if a country has not got them the war axe falls on the very necessaries of existence, *e.g.*, food and clothing. This is exactly what is happening in India to-day.

No quantitative analysis is possible because, if statistics of agricultural production and prices are

***Ways and Means of War* by Geoffrey Crowther, Oxford, 1940, p. 7.

unreliable, statistics of costs of production, agricultural incomes and costs of living are practically non-existent. But the broad facts stand out. In the first place, conditions of the Indian peasant, like those of Indian agriculture are not uniform throughout the country, but differ widely from province to province and sometimes even from one area to another in the same province. There is no doubt, for instance, that in the Punjab, as a whole, the peasant is financially better off than he was before the War. This is due not only to the rise in prices of agricultural produce, but also to the inflow of wealth from the large number of recruits drawn from the Punjab villages. On the other hand, the peasant in Behar and Bengal is badly hit by the acute famine conditions, natural calamities like cyclone, spread of disease and squalor and the exactions of petty officials.

Secondly, the war has created the most favourable conditions for the peasant to reduce or wipe out the burden of his debt, and while statistics are again lacking— there is no reason to think that he is not making the best use of his opportunities. Thirdly, there is no doubt that to some extent, in some parts of India a peasant is eating more of foodgrains than before. On the other hand, he has less of milk, butter and *ghee* (clarified butter), fruits and vegetables. Fourthly, as a rule, he is worse off in the matter of clothing and housing, while it is not easy to measure the loss which he has suffered in the deterioration of his land, caused by under-manuring owing to the fall in the imports of artificial manures and the diversion of natural manures to use as fuel.

But the greatest harm that threatens the rural life is the deterioration in spiritual values. The War

has brought the world to the peasant's door in many ways, but it is not a world overflowing with Love and Truth and all that. The Indian peasant is unable to comprehend the complexities of modern life or of modern warfare. He does not even know why Government is increasingly carried on in India by the issue of new Ordinances almost every week. The more laws are made the more they seem to hurt him and the more he tries to get round them by fair means or foul. And so the vicious circle has set in. It is time that the administrator pondered. For, as Sir Malcolm Darling once put it:

"You cannot weaken the moral sense at one point without weakening it at another, and if this process goes beyond a certain length, village life may revert to the conditions of the jungle from which it has risen by centuries of effort, and the well-spring of India's spiritual heritage will dry up at its source.*"

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*Sir Malcolm Darling's Presidential Address, *Proceedings of the First Agricultural Economics Conference*, 1940, page 19.

"Industrialization is the only possible solution for the appalling absolute standards of life in the East . . . . It follows that difficult as the problems of adjustment may be, they remain subsidiary, not in the sense that solutions are easy to find, but in the sense that they flow from an historical process which cannot be resisted and which ought not to be resisted."—Sir Theodore Gregory, (G. E. Hubbard's Eastern Industrialization and its Effect on the West.)

I. WAR AND INDIAN INDUSTRIES.

1. *War Stimulus.*—With the outbreak of the present war in September, 1939, a strong impetus, it was felt, would be given to the growth of industries by the visits to India of Roger and Grady Missions with a view to studying her war potential and by the organisation of an Eastern Group Supply Council to co-ordinate as well as stimulate the production of war equipment in the eastern countries of the Empire. Further, unlike the last war, industries developed for war were given the following assurance by the Hon'ble Sir A. Ramaswami Mudaliar on behalf of the Government of India: "In case we, in any form, encourage the development of industries for our war needs, those entrepreneurs who had come to the assistance of the State would not be left high and dry to take care of themselves."

Of men and materials, when the war began, as now, there was no dearth in the country. In numbers India claimed one-sixth of the world's population, while some

Indian workers had already proved themselves to be among the best in the world. In raw materials, India was—and still is—the sole producer of jute, next to U.S.A., the biggest producer of raw cotton and the world's largest producer of oil seeds. In minerals India ranked perhaps third in respect of the reserves of iron ore, but the Indian iron was not only the richest in the world, it was also the cheapest to produce. The coal resources of India were estimated at between 50,000 and 60,000 million tons, besides there were enormous resources of water power (27 million kilowatts). Of manganese no other country in the world had bigger resources than India, while of mica she had three-quarters of the world supply. There was no shortage of chromium, aluminium, lead, tin, copper, zinc and additional minerals were still being discovered, *e.g.*, sulphur deposits in Baluchistan. Nature had intended for India the role of a big industrial country and the *second* World War was Nature's *second* reminder, as the first had gone unheeded.

2. *Science and Industry.*—With a view to assisting scientific research of industrial value, Government set up in 1940 a Board of Scientific and Industrial Research with Dr. Sir Shanti Swarup Bhatnagar as its Chairman. This was a step in the right direction, but at the time India lacked not only scientific research on a scale necessary for the industrial development of the country,* but also an appropriate machinery for the application of science to industry. Indeed, the country did not have anything resembling an industrial plan for the full

*Inaugurating the Society for the Promotion of Education and Culture in Bombay on January 17, 1944, Professor A. V. Hill, F. R. S., Adviser to the Government of India, observed: "There are, and the whole world knows it, first class scientific men in India; but there are still far too few of them. There are first-class scientific institutions; but most are poor and small. Some subjects have been given little opportunity of healthy growth."

employment of her natural resources. As *The Statesman* rightly put it: "The public welcome research, but without any active policy of industrial development associated with it, mere research looks like diagnosing the disease, without any intention of applying a remedy to the patient."* What really was needed was not mere research, but a systematic plan to launch more industries with special attention to those denominated the heavy industries.

3. *War Response—We can make it.*—The response of the Indian industry to the war was according to all testimony magnificent. "As one travels through the factories of India," observed Mr. F. R. Picot, the representative of New Zealand on the Eastern Group Supply Council, "it is inspiring to find that as a counterpart to Britain's famous 'we can take it,' has arisen the determined cry of Indian industry 'we can make it.'" That the Indian industrialists and Indian labour of all grades rose to the unprecedented requirements of the occasion cannot be questioned. That the Government failed to make the most of the unparalleled chances of building up new industries can only be regarded the misfortune of India and of the whole world.

4. *Progress of Industries.*—Industrial progress during war must needs be different from industrial progress in peace. In war the immediate object is survival and not prosperity, and it is but inevitable that industries which cater to war needs directly must progress more than industries which do so indirectly. As revealed in the Central Budget at the beginning of March 1942, as a result of the recommendations of Roger Mission twenty new projects were in various

**The Statesman*, Delhi, January 13, 1942, p. 3.

stages of execution involving in all a capital outlay estimated at roughly Rs. 12 crores provided by His Majesty's Government. They were calculated to add materially to India's capacity for the production of munitions and to make her self-supporting in respect of certain items for the supply of which she had hitherto to rely on foreign imports.

Moreover, orders on an increasing scale were placed for industrial products in the country by the Government of India both for themselves as well as on behalf of His Majesty's Government and Allied Nations. For instance, the total purchases made from major trade groups by the Chief Controller of Purchase (Munitions) in India were over Rs. 52 crores in 1942, compared with over Rs. 38 crores in 1941 and Rs. 13 crores in 1940. The total cost of out-turn of Indian Ordnance factories during 1943 was over Rs. 20 crores and the number of employees in these factories at the end of 1942 was about one lakh. The value of orders handled by the Supply Department increased from Rs. 85 crores in the first 16 months of the war to Rs. 118 crores in 1941, Rs. 223 crores in 1942 and to Rs. 142 crores for the first five months of 1943.*

Yet another indication of the war-time increase of industries is the fact that nearly 500 applications for starting or expanding industries involving an aggregate capital of Rs. 15 crores were approved during the first six months of the operation of the control of capital issue scheme inaugurated in 1943. Of these 68 proposals with a capital of Rs. 4 crores related to cotton textile industry, 57 proposals with a capital of Rs. 1·7 crores were of iron, steel and engineering in-

*_The Journal of the Indian Merchants' Chamber_, November 1943, p. 331.

dustries, 63 proposals with a capital of Rs. 1½ crores were concerned with the manufacture of chemicals, drugs and medicines and 15 proposals with a capital of Rs. 12 lakhs dealt with projects of film production and distribution. The remaining 295 proposals fell under the category of miscellaneous industries such as printing and stationery, leather goods, public utilities, tobacco and cigarettes, paper and strawboard, etc.*

The following indices of the volume of industrial production have been constructed on the basis of information contained in the Monthly Survey of Business Conditions in India.

	1938-39	1939-40	1940-41	1941-42	1942-43	Average
1. Iron and Steel..	100	110†	125†	150†	200†	146
2. Cotton Manufactures ..	100	94	100	153	92	110
3. Jute Manufactures ..	100	106	91	103	85	96
4. Sugar (cane factories) ..	100	191	168	120	163	160
5. Paper ..	100	118	149	159	112†	134
6. Electrical energy generated ..	100	109	115	135	135†	123
						128

In 1941-42 the output of iron and steel was 50%, of cotton textiles 53%, of paper 59% and of jute 3% above the 1938-39 level, but the year 1942-43 registered a considerable fall in all of them except iron and steel. The production of sugar followed an erratic course, for the index, after rising from 100 in 1938-39 to 191 in 1939-40, fell to 120 in 1941-42, but improved to 163 in 1942-43. Compared with 1939-40, however, the sugar output in 1942-43 was less by 15 per cent.

*_The Statesman_, January 26, 1944, p. 2.
†Provisional.

Taking the averages of the last four years, sugar production increased by 60 per cent., iron and steel by 44 per cent., paper by 34 per cent. and cotton textiles by 10 per cent., but there was a small fall of 4 per cent. in jute. The index of electrical energy improved steadily from 100 in 1938-39 to 135 in 1942-43. On the whole the increase in the industrial output during the last quinquennium was of the order of 30 per cent.

5. *Industrial Expansion in U.S.A. and U. K.* But all such progress pales into insignificance before the figures of industrial expansion in the United States of America. Taking 1935-39=100, the index of American aircraft and ship-building rose to 550, that of machine tools and engines to 370, of electrical machinery to 210 and of other machinery to 190 in 1941. In the same year, the U.S.A. index of goods currently consumed was 140. From these statistics two points are clear—first that the industrial expansion in India is confined to two or three industries while in the U.S.A. it is all round, not excluding even consumers' goods industries. Secondly, whilst the largest expansion in India has been in iron and steel and paper industries of the order of 100 and about 60 per cent. respectively, the expansion in U.S.A. of aircraft and ship-building industries was five-fold by 1941, while during 1942 and 1943 America established new world records.

In the United Kingdom the munition output of Britain's industry was trebled during the last three years (1940-43) and this result was achieved with half the quantity of raw materials normally imported. In this remarkable industrial expansion women played their part no less than men, the proportion of women employed in the engineering and allied industries rising

from 16.3 per cent. in 1940 to 34.6 per cent. in 1943. At the same time, the industrial profits were kept remarkably low. At the end of July 1943, according to an authoritative index the average yield on all classes of industrial shares was 4.36 per cent.* As against this the chain index of profits in India was nearly doubled between 1938 and 1941, being 68.1 in the former and 137·8 per cent. in the latter year.†

6. *Iron and Steel.*—Iron and steel is foremost among the industries essential in times of peace and indispensable in times of war. During the last World War, the Tata Iron and Steel Company supplied about 29 lakh tons of war materials and on the outbreak of the present war, the steel industry in India immediately placed all its resources at the disposal of the Government.

The output of finished steel during 1941-42 was at least 50 per cent. more than in peace time and with the various extensions in plant the total production by the end of 1943 was expected to have been doubled. Before the war, the average output of 750,000 tons of finished steel per annum was supplemented by imports of 300,000 tons to meet the home requirements. Moreover, the demand for special steels was met entirely by imports, because India did not produce them. The Indian steel industry now has not only doubled its pre-war output of finished steel, but it is also manufacturing a large variety of special steels suitable for munitions production. Among these mention may be made of a special bar for the manufacture of shells, a bullet-proof armour plate, gun-turrets, high grade steel

**Investment and Finance, Delhi,* 26th December, 1943, p. 4.

†*Review of the Trade of India* in 1941-42, published on 27th January, 1944, p. 2.

machine tools and stainless steel for surgical instruments.*

By the Iron and Steel Order of 1st August, 1941, a rigid control was imposed on the civilian consumption of the main types of iron and steel produced in India, including pig-iron, ingots, bullets, tin-bar and tin-plate. By another Order in the same month imports of wrought iron and iron-cuttings were also made subject to import control and by further amendments to the various Import and Export Control Orders virtual rationing of iron and steel products for civilian consumption was established. Thus there was an end to the free market in these products.

The profits of four companies in 1941 amounted to Rs. 5.7 crores as against Rs. 4.3 crores in 1939, or an increase of about 33 per cent.†

7. *Cotton Mill Industry.*—Before the war the cotton mill industry was in the grip of an acute depression caused both by over-production and an unsatisfactory state of export trade. Thanks to the war the industry experienced an improvement in the volume of production as well as in the range of goods produced and still more in their prices. Many new types of fabrics began to be manufactured such as khaki cellular shirting, cotton webbing of various descriptions and jute-cotton union canvas.

The following are the statistics of production of cotton manufactures,‡ during the quinquennium 1938-39 to 1942-43 :

**Review of the Trade of India* in 1941-42, p. 65.

†*Ibid.*, p. 67.

‡*Monthly Survey of Business Conditions in India*, March 1943, p. 446.

Year.		(In million yards)
1938-39	..	4,269·3
1939-40	..	4,012·4
1940-41	..	4,269·4
1941-42	..	4,493·5
1942-43	..	4,029·2

After the boom of 1938-39 the home production of cotton piecegoods had fallen to four million yards in 1939-40, but the production rose by over 250 million yards in 1940-41 and another 224 million yards in 1941-42. But 1942-43 was the worst year in respect of the volume of cotton manufactures which at 4,029 million yards was lower not only than that of the preceding year, but lower than even the 1938-39 level. The decline of output in 1942-43 pulled down the average annual production of the last four years (1939-43) to 4,221 million yards, *i.e.*, less than the figure of 1938-39.

While the home production of cotton piecegoods compared to 1938-39 was short in 1942-43 by 240 million yards, imports of cotton piecegoods into India also fell from 647 to 13 million yards, thus increasing the total shortage to 874 million yards. At the same time, exports of cotton piecegoods from British India rose by 641 million yards from 177 million yards in 1938-39 to 818 million yards in 1942-43. This meant a considerable reduction in the amount of cotton piecegoods available for home consumption, while there were increasing demands of cloth for the army and large orders of the United Nations. Nor was the position relieved by the output of the handloom industry which improved during the war, but only slightly and came to 30 per cent. of the mill production.

As in the case of food, so in the case of cloth, there was a real and considerable physical shortage in the

country which along with other causes—notably inflation of currency—led to an enormous rise in prices. Taking the week ending August 19, 1939 as the base equal to 100 the index number of wholesale prices of cotton manufactures rose to 424 at the end of December 1942 and to 442 in the last week of March 1943. To give an instance, the wholesale price of grey *dhoties* (Ahmedabad Advance 1940 Bull) was Rs. 1-12-6 per pair in August 1939 and Rs. 7-14-0 in the last week of March 1943—a rise of nearly $4\frac{1}{2}$ times!* Thus like the food crisis, and along with it, India had to face an acute cloth crisis as well. The country lacked enough cloth and the people lacked enough purchasing power to prevent men, women and children going naked or half-naked. Bad everywhere, the conditions were perhaps worst in Bengal.

On the other hand, in spite of the rise in the costs of production and the fall in output, such was the rise in prices that the profits of the cotton mills earned in 1941 and declared in 1942 were about $5\frac{1}{3}$ times as high as those of 1928 and about twice as high as those in the preceding year.†

8. *Jute Industry.*—In the case of the jute industry from an era of short working hours, sealed looms, quotas, and gentlemen's agreements in 1938 there was a change in 1939 to working on double shifts, unsealing of looms, rise in wages and increased activity to the extent of seeking exemption from the operation of the Factories Act. But the boom was short-lived and the industry took an erratic course due to loss of markets, transport difficulties and fluctuating military demands. This is manifest from the volume of jute manufactures which

* *Monthly Survey of Business Conditions in India,* April 1943, p. 3.
† *Review of the Trade of India in* 1941-42, p. 52.

rose from 12·2 lakh tons in 1938-39 to 12.8 lakh tons in 1939-40, but fell to 11 lakh tons in 1940-41. The output improved to 12.6 lakh tons in 1941-42, but dropped heavily to 10 lakh tons in 1942-43. The industry experienced much depression from the progressive fall in American orders, but the order of 70 crore yards of hessian from the American Government in June 1943 gave a new hope to the jute manufacturers.

The jute mills, however, had to contend with acute shortage of coal during 1943 which assumed serious proportions in the middle of the year. Some mills had actually to close down for want of coal and the Indian Jute Mills Association established coal dumps from which the mills took delivery in their own boats. The arrangement suffered, however, from irregular supply of coal and owing to floods and the consequential breach of some railway lines the supplies were so reduced that all mills had to stop working for varying periods. Moreover, much of the coal delivered to the mills was incombustible material which caused trouble in the furnaces.*

Another significant event in the history of the jute industry was the suppression about the middle of 1942 of the *phatka* or dealings in jute futures. This stoppage of jute gambling over a period of eighteen months has caused no harm either to the trade or the *ryot*. In fact the latter has been saved from the evil effects of the *phatka* and its resumption during the war is both undesirable and unlikely.

The average dividend in the jute mills rose from 6 per cent. in 1938 to 10 per cent. in 1939 and 19 per cent. in 1940. The average for 1941 was also 19 per

The Capital, Supplement, Calcutta, January 20, 1944, page 19.

cent., but in 1942 it fell to 15 per cent.,* due to the serious setback in the export trade.

9. *Sugar Industry.*—Before the outbreak of war the home production of sugar was sufficient for India's own requirements, while she did not need to produce more, as the International Sugar Agreement of 1937 for five years did not allow sugar exports from India by sea except to Burma. With the fall of the Philipines and Java into Japanese hands in 1941, the sugar industry of India—the biggest in the world—assumed a unique importance as the only major source of sugar supplies to the Empire countries not producing their own sugar. India's neighbours, Iraq and Iran also required nearly 2 lakh tons of sugar and the price of sugar in Iran in 1943 was reported to be Rs. 200 per bag.

In the sugar year—November 1938 to October 1939—the cane factory production of sugar was only 6½ lakh tons, but in 1939-40 (Nov.—Oct.) which coincided with the first war year there was a record output of 12½ lakh tons. During 1940-41 and 1941-42 owing to the restrictionist policy of Government, the sugarcane factories produced 11 and 7.8 lakh tons respectively, but with the abandonment of this policy and the expiry of restrictions of exports of sugar from India by sea (as from 1st September, 1942) the production of factory sugar improved to 10.7 lakh tons during 1942-43. Besides the output of *gur* refineries and open pan factories in 1942-43 accounted for a little over 25,000 tons of what is called *khandsari* sugar. The estimate of the output of cane-crushing factories for the year November 1943 to October 1944 is 12 lakh tons.†

**The Capital, Supplement*, January 20, 1944, p. 63.

†*The Indian Sugar Industry Annual* by M. P. Gandhi, Bombay, 1943. p. xxxiii.

Both the distribution and prices of sugar were controlled by the Government of India with effect from 14th April, 1942. Mr. N. C. Mehta, the Sugar Controller, fixed the price of C 28 Marhowrah sugar ex-factory at Rs. 11-12-0 per maund which on the representation of the industry was revised to Rs. 12-3-6. Again, on further representation, the price of sugar was raised to Rs. 14 and the price of cane fixed at 10 as. per maund as from 1st January, 1943. For the season 1943-44 the control price of sugar was fixed at Rs. 14-13-0 and for cane 12 as. per maund.

Over 80 per cent. of the entire sugar is produced in the United Provinces and Bihar and the Sugar Controller succeeded in securing during 1942-43 a smooth monthly despatch of sugar from the main producing to the various consuming areas. But the task of equitable delivery of sugar to the ultimate consumers was delegated by the Sugar Controller to the Provincial Governments which acted each in its own way. In Bengal a surcharge was given over and above the fixed control price to its mills; the Punjab calculated the wholesale price for imported sugar on wrong data which were afterwards corrected; Assam purchased the sugar on its own account and permitted dealers to sell it at 10 per cent. profit; Bombay took to rationing although her stocks totalled over 80,000 bags.*

The present (Ma-ch 1944) retail price of sugar at Rs. 17-12 per maund, though about three times the pre-war level, was still appreciably less than that in the last war, when it had reached Rs. 21 per maund. But in spite of the all-India control of sugar distribution and prices and rationing of sugar in many urban towns,

*_The Capital, Supplement,_ January20, 1944, p. 27.

the consumer has had to face considerable inconvenience to obtain sugar and has often had to resort to black markets and pay exorbitant prices. Before the war the consumption of sugar was estimated at 11 lakh tons, but at the present time it should be put between 13 and 14 lakh tons. The present productive capacity of sugarcane factories at 15 lakh tons can cope with the entire home demand and leave a margin of at least one lakh tons for export, but the main limiting factor has been the lack of sugar cane in sufficient quantities due to high gur prices. In 1942-43, some 30 factories were in short supply of sugarcane and nearly six weeks elapsed before the U. P. Government banned forward markets in gur and controlled its movement and raised both cane and sugar prices. But in the meantime a loss of nearly one lakh tons of sugar had occurred.*

10. *Coal Industry.*—The Coal industry is the basis of almost all manufacturing industries and on its efficiency depends the smooth working of rail transport as well as other industries. The coal industry was suffering from a setback in the closing months of 1938-39 and in the first half of 1939-40. With the outbreak of war, however, demand for coal became brisk and the export trade surpassed all previous records. Shipments of Indian coal during 1939-40 were of the unusual order of two million tons as compared with 1.3 million tons in 1938-39 and one million tons in 1937-38. There was a record output of coal of about 29 million tons in 1940 which was maintained in 1941-42. During 1943 the coal raisings, instead of rising to meet the increasing requirements of war transport and industries, were actually lower by 8 per cent. compared to the preceding year, 1942. The most

***The Capital, Supplement,* January 20, 1944, p. 25.

important cause of this fall was the shortage of labour. This was due to a variety of reasons *viz.*, attraction of higher wages in more congenial occupations than mining, high prices of rice and consequential enhancement and prolongation of annual seasonal migration during planting time, outbreak of cholera owing to infection brought in by Government contract labour employed on neighbouring projects without proper housing, sanitation and water supply and malnutrition of labour.*

The warning of 1943 in regard to foodstuffs was given by the Chairman of the Bengal Coal Co., Ltd., a year ahead in the following words: "So long as Government control and supply measures are successful all will be well, but should they not succeed the result upon raisings will be disastrous and will be felt by all industries depending upon coal throughout the country." Repeating the warning for 1944 Mr. Mealing, the Chairman, made the following significant observations: "Of recent years we have suffered too much from political disagreement and insistence upon the communal ratio in the appointment of officers without regard to efficiency. I sincerely hope that public opinion and a sense of civic responsibility will be strong enough to insist that food procurement and rationing, the raising of coal for essential industries and the maintenance of vital communications are not hampered and delayed by such matters during the coming critical year.†"

To deal with the shortage of labour, women have been allowed by Government to work underground as

***Address of the Chairman of the Bengal Coal Co., Ltd., Calcutta,* to Annual General Meeting of Shareholders, 12th January, 1944. *The Statesman, Calcutta,* January 18, 1944, p. 3

†*Ibid.*

from 24th November, 1943—obviously a most undesirable thing to do. But shortage of labour is not the only bottleneck. Other factors responsible for the decline in coal output include inadequate supplies of stores and machinery and the colliery owners' own refusal to increase the output. Increased production, it is said, leads to wastage of coal deposits with increased profits not to the colliery owners but to Government in the form of Excess Profits Tax.

Government, it appears, are now contemplating the inauguration of a new coal control scheme according to which mine-owners will be required to produce a certain minimum quantity based on the previous three years' average and to work under conditions laid down by Government in regard to employment of labour, payment of wages etc.* Failure to comply with the requirements of the Control on the part of any colliery will entail its being taken over by Government. Under the control scheme, control will cover not only the production of coal, but also its distribution among the various consumers on a system of priorities with a view to meeting the needs of the essential industries.† An omnibus control in the case of an essential commodity like coal is long over due.

11. *Paper Industry.*—The paper industry, too, has benefited greatly from the war. The value of imports of paper, paste-board and stationery was Rs. 4.1 crores

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*In England also the view was put forward that the coal industry was suffering from a number of accumulating factors including labour shortage of 85,000 men that could not be wholly solved so long as the ownership of the industry remained in private hands. *The Manchester Guardian, Weekly,* October 15, 1943, p. 219.

†*The Investment and Finance, New Delhi,* 23rd January, 1944, p. 3.

in 1939-40 and Rs. 4½ crores in 1940-41, but it fell by half a crore to Rs. 4 crores in 1941-42 and by nearly Rs. 2 crores to Rs. 2.2 crores in 1942-43. The total production of paper rose from 11.8 lakh cwts. in 1938-39 to 14 lakh cwts. in 1939-40, to 17½ lakh cwts. in 1940-41, and to 18.7 lakh cwts. in 1941-42—a rise of 60 per cent. over the pre-war level. But in 1942-43, as compared to the preceding year, there was 32 per cent. fall to 12.9 lakh cwts. due to shortage of coal, raw material and transport, in spite of efforts to increase production with a view to meeting the enhanced demand for paper in the country.

But although the paper industry itself has benefited from war, its total output even supplemented by hand-made paper is wholly inadequate to meet the present domestic and government requirements. The rationing of paper on the basis of 10 and 90 per cent., later altered to 30 and 70 per cent., as between civilian and government uses has not helped matters, at any rate, so far as the ordinary man goes. Notwithstanding 85 per cent. illiteracy in the country and the consequent small demand for paper, even educational institutions and the student community—teachers included—have been facing literally a paper famine in India and have been forced to get whatever is available in the black markets at approximately four times the control rates. No wonder that the *Capital* variable-yield securities index for paper mill shares had risen from 100 in August 1939 to 392 by December 1943.

12. *Cement Industry.*—In the pre-war year 1938-39 India imported cement to the extent of 21,000 tons but in 1940-41 the imports had dwindled to the negligible figure of 5,000 tons and the Indian cement factories

were able to meet the entire home requirements. From September 1939 till June 1941 the industry suffered from internal dissensions and a fall in the demand for cement owing to the rising costs of building houses. The home of the cement industry was, however, put in order by a mutual understanding arrived at between the Associated Cement Company and the rival group at the end of the year 1940. Soon after, with the entry of Japan into the war, large constructions of aerodromes and many other buildings were undertaken throughout India.

The industry thus received considerable fillip due to large governmental and industrial requirements. The progress was, however, conditioned by the restricted transport facilities. The Economic Adviser's index number of the wholesale price of cement (19th August 1939=100) rose gradually from 112 in July 1941 to 145 in January 1943 and continued at the same level at the end of the year 1942-43. The *Capital* index of the yield of cement shares rose from 106 in July 1941 to 182 in March 1943 and to 207 at the end of the year.

13. *Tea Industry.*—Tea industry is the only industry other than iron and steel which has had a continuous run of prosperity throughout the war years 1939-1943. The total production of tea rose from 452 million lbs. in 1938-39 to 453 million lbs. in 1939-40, to 463 million lbs. in 1940-41, to 470 million lbs. in 1941-42, and to 562 million lbs. in 1942-43.

Being a war-time necessity, the exports of tea rose from 328 million lbs., the average of three pre-war years (1936-37 to 1938-39), to 359 million lbs. in 1939-40, dropped to 349 million lbs. in 1940-41 and then rose to

382 million lbs. in 1941-42. But there was a drop to 321.5 million lbs. in 1942-43. In 1941-42 there was a very large increase in the exports of tea to Canada, the U.S.A. and Australia, which were $30\frac{1}{2}$, $23\frac{1}{2}$ and 8 million lbs. respectively. The corresponding figures for the preceding year were $14\frac{1}{2}$, 9 and a little over $\frac{1}{2}$ million lbs. only.

Due to the expansion of markets for Indian tea, there was a continuous improvement in the profits of the tea companies. The average dividend rose from 13.6 per cent. in 1938 to 14.6 in 1939, to 15.6 in 1940, to 18.8 in 1941 and to 26 per cent. in 1942.

14. *Leather Industry.*—Before the war, India's production of shoes was 40 lakh pairs and in 1938-39 she imported $4\frac{1}{2}$ lakh pairs valued at Rs. 13 lakhs of which 78 per cent. came from Czechoslovakia. The production of army boots and shoes during the war increased from 15 lakh pairs in 1941 to 40 lakh pairs in 1942, while the estimate for 1943 is much larger. The United Provinces now claim to be the largest producer of army boots and shoes in the whole British Empire. The place of Czechoslovakian and Japanese-made footwear is now taken by that made in India and this has stimulated an enormous growth in the manufacture of heel and toe tips from a very small beginning to the present productive capacity of about 85 lakh units.

India's leather industry owes its war expansion not only to the army demand for boots and shoes but also to that of harness, saddlery and other army equipment. The total output of the Government Harness and Saddlery Factory, the branch factories and civilian contractors is valued at Rs. 20 crores a year. The

output of leather in 1942-43 was about seven times the output in 1940-41, of which three-fourths was reserved by Government for the manufacture of boots and equipment for the Army. Such a large increase in the supply of leather was made possible by the increased slaughter of cattle to provide meat for the defence forces. The Government of India are shortly opening two big leather manufacturing centres —one in Bengal and the other in the U.P. and they have organised several training centres of which the most important are the Bengal Tanning Institute in Calcutta and the Jullundur Tanning Institute at Jullundur City.*

15. *Effect on Small Scale Industries.*—In a war of the present magnitude and character small scale and cottage industries are no less valuable than large scale industries. Owing to the huge demand for war goods and the comparatively small capacity of large scale industries in India, limited by their present plant and machinery, increasing reliance has been placed on the small producer. In March 1942 a Small Scale Industries Conference was organised for the first time in New Delhi with a view to securing something like a fourth of the war requirements of as many articles as the small scale industries could supply.† In this way Government are getting in large and increasing quantities cotton and woollen goods including blankets, durries, tents, camouflage nets and parachute silk cloth, army boots, and other leather and rubber goods, glassware and other small articles, too numerous to mention, *e.g.* pith hats, socks and hoses. The value of such orders amounted to Rs. 5 crores in 1941-42

**The Capital*, December 16, 1943, p. 830.

†For fuller information see *India Builds Her Economy during the War* by P. C. Jain, Allahabad, 1943, pp. 84—102.

and probably exceeded the estimate of Rs. 10 crores in 1942-43. These figures are nothing as compared to the value of the orders of hundreds of crores of rupees given to large scale industries. But it is significant that the small scale industries give employment to about $1\frac{1}{2}$ crore workers, while the corresponding figure for large scale industries is no more than 20 lakhs.

It is also interesting to note that the largest shift from peace to war-time jobs in India has really taken place, as might have been expected, in the case of small producers. For instance, the glass-blowers instead of blowing glass are now engaged in producing scientific instruments; the artisans of Agra so clever in the production of Taj Mahal models are making identity discs of the same material, *i.e.* stone; the cane furniture makers are making cane baskets for the army officers, instead of cane chairs and tables for civilian use; the blacksmiths are manufacturing cutlery for the army, while even some weavers instead of weaving are producing camouflage nets.

No few sentences could adequately convey the weight and variety of the war effort on the part of the small producer, but to give only one instance, in 1940-41 four crore garments were made by the tailors and in 1942-43 the number was 12 crores. Of the innumerable small scale industries by far the most important is hand-loom weaving which before the war was responsible for producing one-third of the total cloth consumed in the country or roughly 200 crore yards, and gave employment to 50 lakh persons. The war-time statistics are not available, but it can be said that next to the agriculturists the hand-loom weavers'

—sometimes they are one and the same—contribution to war effort is perhaps the largest in terms of human labour.

It is impossible to consider the progress of individual small scale industries, but the war has brought to all of them plenty of work most of which will cease after the war. This is an important post-war problem. The greatest needs of the small industries, as the war has emphasised, are cheap electric power, research, and suitable marketing organisation.

16. *Consumers' Goods* Vs. *Capital Goods.*—An obvious but lamentable feature of India's industrial development is its lack of balance. The progress registered even during the war has been almost all in the consumers' goods industries to the sad and striking neglect of production or capital goods industries. Cotton, sugar, paper, cement and even leather have all expanded, while the basic industries for the production of machine tools, automobiles, railway engines, ships and aeroplanes have been left out. In a word, India can no doubt feed and clothe her armies, but she cannot equip them with the modern weapons of warfare.

17. *Shipping Industry.*—To take first the shipping industry, India has a coast-line of about 4,500 miles with 7,000,000 tons of coastal trade and 25,000,000 tons of overseas trade at pre-war levels. The annual value of this overseas import and export trade alone comes to about Rs. 400 crores (pre-war figure). Moreover, India is surrounded on three sides by sea. Thus both for purposes of trade and for defence, that is economically as well as militarily, India needs a strong navy. According to Professor Pigou 'The fear of war was a potent factor in compelling Government to support

the shipping industry in England*, but neither the last Great War nor the present so far seems to have had any such effect on the Government of India. The Commerce Secretary definitely stated early in 1941 that Government had no intention of encouraging shipbuilding industry as a part of the war effort. Explaining the position, the Commerce Member pointed out that the emphasis was on the words 'as part of the war effort', for ships built in India would not be ready for three or four years and war needs obviously could not wait for anything like that length of time†. Events have proved the invalidity of the governmental position. But even before the war, the Indian public was insistent in demanding, and the demand was supported by the recommendation of the Mercantile Marine Committee, that India's coastal trade should be reserved for Indian shipping. This was not accepted by the Government of India, although some 20 other Governments had reserved the coastal trade of their country for national shipping.

Thanks to the efforts of Mr. Walchand Hirachand, shipbuilding yards were opened in Vizagapatam in 1940 in which within two years 4,000 sea-going ships had been repaired. The small naval vessels of various types under construction include trawlers, corvettes, fairmile launches, motor mine-sweepers, motor launches, mine-sweeping tugs, fleming life-boats, skids (which are towed behind vessels and explode mines), motor cutters and other sea-going and coastal craft. Altogether well over 30,000 men are engaged in the various shipbuilding and repairing yards in the country.‡

**The Political Economy of War* by A. C. Pigou, London, 1940, p. 10.
†*Proceedings of the Council of State*, April 2, 1941.
‡A. P.I. News in the *Tribune*, Lahore, April 5, 1942, p. 5.

But India still cannot produce a single battleship or an aircraft carrier—things which really matter in modern warfare.

18. *Aeroplane Industry.*—As regards the manufacture of aeroplanes, a factory named the Hindustan Aircraft Company, Ltd., with an authorised capital of Rs. 5 crores was floated in Bangalore in 1941. This factory has since been taken over by the Government and is engaged in the repairing and production of aeroplanes. The aeroplane industry like the shipping industry, is in its absolute infancy.

19. *Motor Car Industry.*—According to Geoffrey Crowther, the well-known editor of the *Economist* of London, " of all peace-time industries, motor-car manufacture is perhaps closest to the sort of industry that is required in war."* The Government of India do not accept this view, for, if they did, India would not have been without an automobile industry to-day.

On the 7th July, 1941 a project was put up before the Commerce Department, Government of India for starting an assembly plant for the first seven months and for producing 60 per cent. of the parts of the vehicles during the next three years. The Bombay Government gave a tentative guarantee of $3\frac{1}{2}\%$ interest on a share capital of Rs. 1,50,00,000 for a period of ten years. All that the promoters wanted from the Government of India was a guarantee to purchase motor vehicles manufactured in India for the Government Departments and the Army, but the Government were unable to give such a guarantee and, in any case, the Military Department refused to have trucks and cars of a new pattern! Later a well-known firm in

* *Ways and Means of War* by G. Crowther, Oxford, 1940, p. 166.

Calcutta was prepared to go ahead with the scheme immediately without any help of the Government except exchange priority and technicians, but even this help was not given.

According to a Calcutta message dated December 30, 1943, medium-sized motor cars and light trucks may be manufactured in India in the near future. It is understood that Messrs. Birla Brothers, who have already acquired assembling plant and other machinery, are going to establish a motor car plant, as soon as circumstances permit. Expert staff is being recruited from England and the U.S.A. and an application has already been submitted to the Government of India for the increase of capital of Hindustan Motors, Limited.*

20. *Partial Mobilisation.*—On the whole, it must be admitted that there has been progress both in the pace and range of production since the out break of war, but it has been more a matter of necessary production by placing orders with pre-selected producers rather than a serious and scientific attempt at mobilisation of the industrial resources of the whole country. The Supply Department has been anxious to have these necessary orders executed on a system of priorities, and has been dominated by the desire not to harness the entire resources of civil industry as rapidly as possible, but to interfere as little as possible.

In total mobilisation things cannot be left merely to business men. Even in countries like the United States of America and the United Kingdom, it has been found wrong to think that business men are more far-sighted, clear thinking or honest than any other classes.†

*United Press of India message in the *Statesman*, 1st January, 1944, page 2.
†*The Economist*, London, October 11, 1941, p. 437.

Only the other day, it was discovered in the U.S.A. that the profits of one firm were astounding. The firm is engaged in the manufacture of aeroplane starters and holds over 58 million dollars worth of war contracts.

'It is wilful dissipation of Government money', declared Mr. Edmund Toland. He said that while the company reported 10 per cent. profit, Navy Department officials found they were making 100 per cent. The secretary to the President of the Company alone received 39,000 dollars, asserted Mr. Toland.*

It would thus appear that even in Western countries the motive of profits sometimes overrides the motive of selfless patriotism. In India, apart from Governmental apathy, the industrial effort is limited mostly by considerations of profits only and industries are not producing up to their utmost capacity, but rather up to their maximum profits subject to considerations of excess profits tax.

21. *Example of Australia.*—The same considerations did not, however, prevent Australia from the manufacture of ships and aeroplanes during the present War. In 1932 when she was hit hard by the World Economic Depression, Australia did not produce an ounce of steel. Speaking of 1941, Sir Bertram Stevens, Minister of Supply of Australia observed :

" She now produces 1.5 million tons of steel—more than India's production per year, her aircraft factories are producing the most up-to-date fighter and bomber planes at the rate of 1,000 a year, her shipyards are now building destroyers, cruisers and merchantships of 10,000 tons, her automobile factories are producing 50,000 automobiles, her engineering industries are

**The Leader*, Allahabad, 25th March, 1942.

producing rifles, not by hundreds of thousands but by millions, and Bren guns by hundreds of thousands—and this is the industrial war effort of only 7 millions of people who only a decade ago mostly produced raw materials for export to Britain, U.S.A. and Japan."*

22. *Lesson from U.S.A.*—Mr. Donald Nelson, the U. S. War Production Board Chief, in a Report published on April, 7, 1942 in *Mill and Factory Magazine* says:

"The largest armament programme the world has seen has been geared up to fast action here and now. It dwarfs anything done by America in the past. By mid-summer, military aeroplane and engine production will be so vast that the problem will be where to find rail and transport to handle the load.

Men work from 7 a.m. each day until 12 midnight, if necessary to finish the work. Orders for tolls, materials and parts permit war plants to work 24 hours a day. The armour plate is flame-cut, instead of machined, in order to speed the production of tank parts. Detroit is smashing, banging, clanging, welding, demolishing and building, and producing—doing overnight a job which defeatist wise-acres had said could not be done in a year." (*The Statesman*, April 9, 1942).

India can take lesson from the U.S.A. and Australia. Mistakes have been committed in the past and much precious time lost. But there is no use indulging in recrimination. India can still get on with the job. And if Indian soldiers have surprised the world by deeds of unsurpassable bravery and heroism, Indian workers are also capable of doing miracles in industrial production.

**Journal of the Indian Merchants' Chamber*, November 1941, p. 364.

"Trade is international, and no country can be self-sufficient without restricting the prosperity of its people".—J. H. Jackson.

III. WAR AND INDIAN TRADE.

1. *Increasing Isolation.*—In trade, as in industry, the present war is different from the previous great war. In the last Great War, for instance, the markets of a few countries alone were closed to India; trade with most countries of the world was possible, although subject to necessary war-time restrictions. In this war India has been isolated from the rest of the world to a marked degree. In the last war only a few stray German ships came into Indian waters, but they were soon driven away and the loss they caused was small. In the present war the British Navy until recently could not be spared to defend Indian shores, while Japan has yet to be beaten.

Not only has India's trade been cut off from Germany, Italy, Czechoslovakia, Poland, Belgium, Holland, Norway, Sweden, France and Japan, but her normal trade has been impeded and interrupted even with countries in the British Commonwealth of Nations and has ceased altogether with Malaya, Dutch East Indies and Burma.

2. *Volume of Trade.*—The first effect of war on Indian trade may be seen in regard to its volume. Below are the figures of the value of exports and imports for the years from 1938 to 1943.

India's War-time Trade, September to August
(Value in crores of rupees)

	1938-39	1939-40	1940-41	1941-42	1942-43
Exports ..	172·4	212·9	187·4	242·43	198·83
Imports ..	163·0	161·4	175·2	134·53	106·89
	9·4	51·5	12·2	107·90	91·9

Great caution is needed in the interpretation of these figures; for, owing to the demands of war-time secrecy, neither complete nor recent trade statistics are published. Thus the figures given for exports do not include the value of purchases made by His Majesty's Government in India, nor do the figures for imports include the value of imports for the consumption of the defence services. The magnitude of omission on the export side is much greater, because supplies and stores of the value of several hundred crores of rupees annually are being sent out of India. The recorded value of exports is, therefore, considerably deflated. Taking the figures as they are, both exports and imports showed a substantial increase in the first year of the war. In the second war year exports declined a little and imports registered a marked rise, and the third war year witnessed a substantial rise in exports and a marked fall in imports. But in the fourth year there was marked recession in both exports and imports, but more severe in respect of imports than of exports.

The striking increase in exports in the first year of war is explained largely by the heavy purchases in the Indian market by the Allies (which up to May, 1940 included France) and by several neutral countries. The substantial decline in the second year of war (September 1940—August 1941) may be attributed to a number of factors, the principal being the loss of European markets after the fall of France, the Netherlands and Belgium, and serious shortage of ocean transport due to the preoccupation of British ships in the Mediterranean and the Atlantic and heavy shipping losses. But in the third war year there was a marked increase in India's exports due mainly to heavier war

demand and improved shipping facilities. This increase was achieved in spite of the elimination of Japan from India's trade after the freezing of her assets in July, 1941 and reflected the intensified demand for Indian goods in the Middle Eastern and Empire countries and the increased volume of trade with the U.S.A. The decline in trade during 1942-43 was due partly to the cessation of trade with Burma and the virtual closing of the Pacific trade routes to America and partly to shipping difficulties.

It may be noted that the figures for both exports and imports relate to value (and not quantum) and are affected by the rise in prices since the outbreak of war. The quantum of trade had actually declined, about 70 per cent. in imports and 38 per cent. in exports in 1942-43 on the basis of the pre-war year 1938-39.*

3. *Balance of Trade.*—The balance of trade in India's favour increased from Rs. 9·4 crores in the 12 months preceding the war to Rs. 51·5 crores in the first war year, but shrank to Rs. 12·2 crores in the second year of war. In the third war year it rose to the high figure of Rs. 107·9 crores, but in the fourth war year, 1942-43 there was a drop to Rs. 91·94 crores. These figures do not, however, reveal the full story, because—as already pointed out—they do not include the value of war purchases made by the British Government. The actual position is much better than that shown by these figures and may be gauged from the accumulation of heavy sterling balances in India's account in London over and above large-

The Eastern Economist, Delhi, July 30, 1943, p. 365.

scale repatriation of sterling debt including that incurred in connection with the railways.

4. *Composition of Trade.*—No less significant are the changes involved in the composition of India's foreign trade. To facilitate a study of this aspect of Indian trade, the exports and imports have been divided in the following table into three broad categories : food-stuffs, raw materials and manufactures.

Composition of India's War-time Trade

(Value in crores of rupees)

	September to August				
	1938-39	1939-40	1940-41	1941-42	1942-43
Exports :					
Food-stuffs	36·2	38·3	47·3	56·0	46·9
Raw Materials	80·8	82·4	58·8	57·2	42·9
Manufactures	52·5	90·2	78·6	111·3	95·2
Imports :					
Food-stuffs	31·3	31·3	26·1	16·3	7·6
Raw Material	32·4	40·0	47.0	44·7	51·8
Manufactures	96·9	88·3	100·4	71·8	49·4

The first outstanding feature of export trade during the war is the remarkable increase in the exports of manufactured articles. In the very first year of war exports of manufactures almost doubled in value and although there was some decline during the second year the position was more than retrieved in the third year. Against this gratifying increase in exports of manufactures must be set, however, the large fall in the volume of the exports of raw materials. In this group are included oilseeds, cotton and jute for which India had fairly large markets on the European continent, but these were completely lost after the German occupation of the continental countries.

The fall would have been even greater, but for the large purchases by the British Government of ground-nuts and linseed and the measures for the restriction of the areas under jute and ground-nuts. The position in respect of cotton caused some anxiety after the entry into the war of Japan—a large purchaser of Indian cotton of the short staple variety. On the other hand, the prospects for the export trade in cotton manufactures became fairly bright as India was now the only country to supply the requirements of cloth of the Empire and the Allied countries east of Suez. The total exports of Indian piece-goods doubled between 1938-39 and 1940-41 and more than quadrupled by 1941-42.*

Under the category of food-stuffs, there has been a steady and noticeable improvement due chiefly to large increases under tea and grain, pulse and flour.

Analysing the composition of import trade, one observes first of all, a substantial increase in imports of raw materials which is largely accounted for by increased imports of raw wool and Egyptian cotton needed for production of finer varieties of cotton goods. Imports of manufactured goods which showed some decline in the first 12 months of war recorded a rise in the second war year but there was a marked decline in the third and fourth war years. Vehicles (excluding locomotives) cutlery and hardware, rubber, woollen manufactures, dyes and colours accounted for a large part of the rise in 1940-41. There has been much decline since the outbreak of war in the imports of cotton manufactures and machinery. The main causes of the fall in the imports of machinery are the preoccupation of

*_Review of the Trade of India_, 1941-42, p. 49.

the Allies with the production of war materials, the lack of adequate shipping facilities and the conservation of dollar resources by the Government for the purchase of essential war goods.

The outstanding trends in the changing composition of India's foreign trade during the war are thus the increase in exports of manufactured goods and decline in those of raw materials. While the former clearly shows that the much desired stimulus to industrial development has been received in a gratifying measure from the war though not in the direction of establishment of new or key industries, the latter created a serious problem to which reference was made in the first chapter.

5. *Direction of Trade.*—Attention may now be directed to the following table with a view to seeing the more important changes in the direction of export and import trade during the last five (financial) years:

(In crores of Rupees)

	U. K.	British Empire.	European countries other than U. K.	Japan.	U.S.A.
1938-1939:					
Exports ..	55.5	85.4	29.6	14.6	13.9
Imports ..	46.5	88.6	26.9	15.4	9.8
Balance ..	+9.0	—3.2	+2.7	—.8	+4.1
1939-1940:					
Exports ..	72.5	114·1	21.6	14.0	24.4
Imports ..	41.6	93.1	19.5	19.3	11.9
Balance ..	+30.9	+21.0	+2.1	—5.3	+12.5
1940-1941:					
Exports ..	64.9	116.6	6.4	9.0	2.9
Imports ..	35.9	89.7	4.7	21.5	27.0
Balance ..	+29.0	+26.9	+1.7	—12.5	—1.1
1941-1942:					
Exports ..	76.85	148.95	*	11.78	46.59
Imports ..	36.59	105.63		4.59	34.61
Balance ..	+40.26	+43.32		+7.19	+11.98
1942-1943:					
Exports ..	57.34	125.86		*	27.79
Imports ..	29.53	61.32		2.84	19.01
Balance ..	+27.81	+64.54		—2.84	+8.78

*Figures not available and in any case will be insignificant.

6. *Significant Changes.*—The significant changes revealed by these figures are as follows :

(1) Trade with the continent of Europe has been brought practically to a standstill.

(2) Trade with Empire countries has greatly increased. Taking 1938-39 as the base, exports of Indian merchandise to Empire markets increased by 34% in 1939-40 and 47% in 1942-43. Imports have, however, fallen much below the pre-war level and the balance of trade has improved to + Rs. 64.5 crores in 1942-43 compared with a negative balance of Rs. 3 crores in 1938-39.

(3) While the total volume of trade with U. K. has not shown any increase on the whole, and has actually declined somewhat in 1942-43, the balance of trade in India's favour has improved from Rs. 9 crores in 1938-39 to Rs. 40 crores in 1941-42 and stood at Rs. 28 crores in 1942-43, due to both an increase in exports as well as a decline in imports. Owing to big purchases by His Majesty's Government in the Indian market which are not included in export figures, the actual favourable balance was even greater and led to the accumulation of a large balance of sterling with the Reserve Bank of India in London. One may, in this connection, note that up to 1935-36, India imported more than she exported to U. K., *i.e.*, she made payments to U. K. for imports of merchandise and services by building up an export surplus

with other countries. But since that date, the balance of trade with U. K. has turned favourable, or in other words, the various obligations to U. K. have been met in greater measure than before by direct exports to U. K. The war has increased the balance to such an extent that not only has it been possible to meet all current obligations, but also to undertake the reduction of these obligations by a steady repatriation of India's sterling debt.

(4) Japan's share in India's imports increased by 40% and her share in our exports decreased by about 40% in 1940-41 compared with 1938-39. Since December 1941 trade with Japan has been completely cut off.

(5) Both export and import trade with U.S.A. have doubled in value compared with 1938-39 and the balance of trade with U.S.A. has turned favourable to the extent of about Rs. 9 crores. Imports from U.S.A. into India now rank in value only next to those from U.K.

The whole political situation is changing with such bewildering rapidity that some of the old trends may be completely reversed and some new ones make themselves prominent. Trade with Middle Eastern countries notably Egypt, Iraq and Arabia, has received a stimulus due to the cutting off of Japanese supplies and improvement in war situation in the Middle East. The Empire countries still constitute a large bloc with comparative freedom from exchange restrictions and drawn together in pursuit of a common aim, and India's

trade with them may be expected to show a steady upward course.

7. *Trade Controls.*—Two outstanding problems of India's foreign trade to which the war has given rise are (1) the surpluses of agricultural produce arising out of the loss of some external markets,* and (2) the institution of controls on exports and imports both direct and through control of exchange transactions.

During war when the entire resources of a country are being organised for the achievement of an agreed objective, *i.e.*, victory, and the whole economy is planned to that end, it is but natural that trade should also be subjected to rigid control. Like most other countries, India has brought both her export and import trade under control.

8. *Export Control.*—The export control has taken mainly the following four forms :

(1) Prohibition of all exports to enemy countries.
(2) Prohibition of exports of certain articles to non-enemy countries.
(3) Permission for the export of certain articles to non-enemy countries *only under licence.*
(4) Permission for the exports of certain articles without licence or under an open general licence *only to specified countries.*

An elaborate system of export restrictions has been devised since the war broke out with a view to preventing supplies of certain exports reaching the enemy by indirect channels and to conserving the supplies of a number of essential articles either for internal consumption or for the use of Allied countries. Exports of certain articles are completely prohibited

*See Chapter I, pp. 8 *et seq.*

(even to non-enemy countries) and those of certain others are permitted only under licence. Export licences are issued for some articles by the Department of Supply of the Government of India ; for others by the Export Trade Controller. For certain articles, no export licence is required if they are consigned to or destined for any part of the British Empire including Mandated Territories. To take only a few items of export for illustrating the varying degree of control exercised, exports of black, grey and coloured wool are completely prohibited, those of white and yellow wool are permitted only to the United Kingdom and those of mica—an important material for munition production—are prohibited to all countries other than those in which munitions are being prepared for the requirements of the Allied forces. An addition (February, 1942) to the long list of articles subject to export control is cotton yarn, the exports of which to all countries, with the exception of the U. K., have been restricted to the average of the exports during the three years preceding the outbreak of war. This measure was the outcome of the Government's anxiety to make sufficient quantities of yarn available to hand-loom weavers at reasonable prices.

9. *Control of Foreign Exchange.*—An important development in the application of export control was the institution on 9th March, 1940 of a scheme for the control of foreign exchange proceeds of certain exports to the hard currency* countries in accordance with the Empire Scheme formulated by the British Government. To begin with, only the exports of jute manufactures and rubber were covered by the scheme, but in June,

*Either dollars or currency convertible into dollars.

1940 all commodities exported from India to hard currency countries were covered. Exports to these countries are now permitted, provided a certificate is furnished by an authorised dealer in foreign exchange in India that the proceeds of goods had been disposed of in a manner approved by the Reserve Bank of India. The object of the scheme was to obtain control over the foreign currency proceeds of the exports and also to see that the full proceeds of the exports were received at the rates of exchange fixed by the London Exchange Control.

Another measure of export control was the control of entrepôt trade of Bombay in Japanese goods. After the entry of Italy into war and restrictions by the Japanese Government on the drawing of bills on places west of Bombay, a large entrepôt trade in Japanese goods developed. In order to ensure that India was not called upon to provide foreign exchange for which she received no return, banks were prohibited from selling foreign exchange for foreign goods that were being re-exported to countries outside sterling area except when the Reserve Bank was satisfied that the equivalent foreign exchange was actually received in payment of the re-exports.

10. *Import Control.*—Import control in India, unlike export control, was instituted several months after the outbreak of war. At the beginning of the war no restrictions were placed on imports into India (except of course in respect of goods from enemy countries) and all importers could freely obtain foreign exchange for payment of goods. In May, 1940, however, the Government introduced a system of licensing imports of certain commodities from certain countries for the purpose of conserving foreign exchange, parti-

cularly dollar exchange. At the same time the Exchange Control Department of the Reserve Bank of India issued regulations forbidding the remittance of any amounts overseas in payment of imports unless the importer in India was in possession of an import licence, thus ensuring that no goods, whose entry into the country would be barred, were paid for prior to arrival. So vast was the expenditure on war equipment and war supplies which the Allied Powers had to buy from countries overseas that it was extremely important to secure that their resources of overseas currency were most carefully husbanded and not squandered on less essential purchases.

The commodities of which imports were restricted were at first those the consumption of which could be restricted without much difficulty or which could be easily replaced by Indian goods or goods imported from countries in respect of which the foreign exchange problem was less acute. The number of commodities brought under import control was 68 in May, 1940; it was increased to 117 in May 1941. In July, 1941, a number of other commodities, namely, cotton twist and yarn, ribbons, artificial silk and staple fibre yarn, cotton piece-goods and fents and artificial silk piece-goods and coral were added to the list to conserve exchange in respect of countries outside the sterling area as well as to reduce the adverse balance of trade with certain countries, particularly Japan. In August, 1941 fresh items which for the greater part comprised machinery and other industrial requirements were brought under import control and the total number of items thus increased to about 250. In January, 1942, by an amendment of the Import Control Order of

August, 1941, practically all imports were brought under control.

Thus the paramount consideration behind measures of import control has been the conservation of the available supplies of foreign exchange in certain countries—mostly countries with 'hard currencies'. Further considerations have been the economising of shipping space and the optimum utilization of the productive capacity of friendly nations overseas for essential war purposes. In fact, exchange control which is essentially control over the receipts and payments in foreign currencies necessarily involves control over movements of goods and services whether as exports or imports.

11. *Machinery of Controls.*—The export and import trade controls are being administered by Export Trade Controllers and Import Trade Controllers functioning at the chief ports. In respect of imports, the restriction has generally taken the form of fixation of quotas on the basis of pre-war imports and a quota recommendation certificate must be obtained from the Import Trade Controller. In the beginning of 1941, a separate Steel Controller was appointed for controlling imports of all classes of steel from U. K. and U.S.A., to ensure that unreasonable demands for steel (involving in the case of U.S.A. a waste of dollar exchange) were not made, and a licence for import in addition to quota authorisation had to be obtained from him in respect of such imports. What was done in the case of steel had to be done six months later in the case of all imports when a Chief Controller of Imports was appointed to establish a system of priorities and issue priority certificates after examining carefully all the conflicting claims from all parts of the country in respect of

imports. Owing to the growing difficulty of obtaining supplies of several imported articles and the increasing stringency in the matter of foreign exchange facilities it had become necessary to give priority to all the imports needed for war purposes and to ensure that such imports as could be obtained, after the war needs were satisfied, were directed to the most useful purposes.

Considering the magnitude and complexity of the task that is set to any government, when it seeks to operate controls over a country's trade, it must be recognised that despite anomalies and occasional hardship to traders, the machinery of control in India has worked reasonably satisfactorily. In the case of exports, the smooth working has not been a little due to the association of the representatives of commercial interests with the practical working of the export control scheme through the Export Advisory Council set up on the 11th May, 1940. One of the functions of the Council is "to act as a channel of communication between the Government of India and the exporting interests of the country so as to facilitate the discussion of difficulties arising out of the war and the legislation and regulations consequent thereon." No Import Advisory Council on the lines of the Export Advisory Council has been set up so far, though the need for the establishment of such a Council appears to be even greater not only to ensure the smooth working of import control scheme and to minimise the inconvenience to trade and industry, but also to prevent the essential requirements of the expanding Indian industry being overlooked or under-rated.

12. *Inland Trade.*—The inland trade of India which may be said roughly to bear a proportion of 3 : 1 to the

foreign trade furnishes in some ways a much better index of the economic activity in the country than foreign trade. The effect of war on Indian economy is, therefore, reflected even more clearly in the volume and character of inland trade than of foreign trade. Unfortunately, the statistics compiled for inland trade in India relate to trade between the 22 principal blocks into which the country is divided for this purpose and furnish information only about denomination and quantity and not value. They also do not give any idea regarding traffic within each block. Thus they are not a sure guide to changes in the volume of trade. Moreover, complete figures for war years are not published.

Taking the figures available for inland trade in the ten chief groups of articles, namely, coal and coke, raw cotton, cotton piece-goods, grain, pulse and flour, raw hides and skins, raw jute, gunny bags and cloth, and steel bars, sheets etc., oil-seeds and sugar, the total volume of trade in 1938-39 was 760 million maunds. It increased in 1939-40 to about 808 million maunds, registering a rise of about 6 per cent., but declined to nearly 779 million maunds in 1940-41, *i.e.*, by well over 3 per cent. compared with the previous year. The volume of trade, in 1940-41, in spite of this decline, was greater than at any time in the preceding seven years. The considerable increase in the volume of trade in 1939-40 was due to the stimulus given by the war and the decline in 1940-41 may be attributed to a number of adverse factors arising out of it. The more important among these factors were the shortage of transport facilities, the tendency to hoard essential foodstuffs and the loss of continental markets for commodities.

The increased volume of trade in 1939-40 was accounted for by increase under all commodities except oil-seeds and sugar, the increase being most marked in the case of coal and coke and grain, pulse and flour. The recessions in 1940-41 are most marked for those commodities for which important export markets on the continent were lost, such as oil-seeds, raw jute and hides and skins. There was also a considerable fall under grain, pulse and flour, indicating greater hoarding and, consequently, smaller movement of these articles and under coal and coke indicating shortage of wagon facilities. At the same time, there was a significant increase in the inland trade of cotton piece-goods and iron and steel—both commodities of war-time importance.

The information provided by inland trade statistics may be supplemented by that yielded by figures of railway earnings and traffic to form an idea of the increase in internal trade activity caused by war. The total number of wagons loaded increased from 7·2 millions in 1938-39 to 7·5 millions in 1939-40 and 7·6 millions in 1940-41, but declined slightly to 7·5 millions in 1941-42. It must be pointed, however, that a large number of wagons loaded on special trains for military traffic are not included in the figures. Moreover, during the war years the railways have been carrying a larger amount of merchandise per wagon than before.* The gross earnings of the State-owned railways increased from Rs. 94 crores in 1938-39 to Rs. 98 crores in 1939-40, Rs. 112 crores in 1940-41, and Rs. 130 crores in 1941-42. It is worthy of note that the gross earnings at Rs. 150 crores* in 1942-43 were the highest recorded since 1929-30.

**Review of the Trade of India* in 1941-42, 1944, p. 99.

13. *Future.*—When one speaks of the future during the pendency of a war, especially a war like the present one, the domain of hard fact is abandoned for one of vague speculation. So vast and incalculable are the forces convulsing the entire economic system and so uncertain their final issue that prophecy must be a foolish adventure. The future of India's foreign trade necessarily depends upon the future of world trade which in turn is closely bound up with the future of the world itself. What shape the economic system of the world will take will be determined almost wholly by the proportion of sanity and impartial scrutiny that are brought to bear on its management.

In a general way, one may say that India's trade in the future will reflect the changes that her economy would undergo as a result of the war. There would be some adjustments that inevitably will have to be made, when the reconstruction of world trade is undertaken after the war. A measure of flexibility in India's foreign trade policy will be necessary to smooth out the process of adjustment, but the aim of such policy should be to conserve as many gains made during the war as possible and recoup most of the losses. Under the stress of war conditions world trade as such has ceased to exist and has been replaced by more extensive trade among groups of countries drawn together in pursuit of common war aims and policies. India's trade, too, with the group of Allied countries has received considerable stimulus. Here is a gain which may not be lightly thrown away after the war. Something more may be added to it.

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* *Monthly Survey of Business Conditions in India*, March 1943, p. 465.

" The Government is acting within its statutory limits, the Reserve Bank is functioning within its own statutory obligations, it must be somebody's obligation to stop inflation."—Gyanchand.

IV. WAR AND THE INDIAN MONEY MARKET

1. *Immediate Effects.*—There is perhaps no part of the Indian economy which the War has affected more seriously than the Indian Money Market and Indian monetary conditions. Taking the latter first, who can deny the change that has taken place during the last four years both in the composition and value of the Indian rupee. Soon after the war, the tendency was visible on the part of the people to convert bank notes into silver rupees and to hoard them. This tendency varied with the fortunes of the war and was much intensified by the fall of France in the summer of 1940. The Reserve Bank, first, tried to meet the sudden demand for conversion of notes into rupee coins without restriction. But such was the panic in the country that the stock of silver rupees which stood at Rs. 75·87 crores in the Issue Department of the Reserve Bank on the 1st September, 1939 had fallen below the statutory limit of Rs. 50 crores to Rs. 35·1 crores on the 21st June, 1940 and was still falling.

2. *Change in the Composition of the Rupee.*—On the 25th June, 1940, acquisition of rupee coin in excess of one's personal or business requirements was declared illegal. This, while diminishing the demand for rupee

coin, accentuated the demand for small coins. But on the 24th July, 1940 one-rupee notes were put into circulation. At the same time, the silver contents of the half-rupee and the rupee were reduced from $\frac{11}{12}$ to $\frac{1}{2}$ on the 26th July and 23rd December respectively. The process of this change in the composition of the rupee was later completed, on the one hand, by the gradual withdrawal of old silver rupees and half-rupees (Queen Victoria, King Edward VII, George V and George VI) and on the other, by the issue of new one-rupee notes in July 1941 and two-rupee notes on 1st February, 1943.

3. *Scarcity of Small Coins.*—Thus the attack on silver rupees by the hoarders was successfully met by the issue of new rupee coins and notes, but an acute scarcity of small coins manifested itself all over the country in the winter of 1942. Eating shops, tobacconists and small traders in Calcutta, Bombay and other places displayed notice boards with the inscription 'No Change.' Large queues of men were seen waiting to get small coins at the Reserve Bank of India (over 15,000 a day in Bombay in November, 1942) each individual being allowed up to two rupees change at a time. People and private institutions began using their own coupons or postage stamps in place of small coins.

Some idea of the magnitude of the scarcity can be had from the fact that, while during the four years of war in 1914—18, the total absorption of small coins amounted to Rs. 5 crores, the figure for the first two and a half years alone of the present war was rupees eight crores, while for the six months, April to September, 1942, it was as much as Rs. $3\frac{1}{4}$ crores, and for

the next six months October 1942 to March 1943, Rs. $4\frac{1}{2}$ crores.

Some increase in the demand for small coins was only to be expected with the increased economic activity in the country, the acceleration of public works and the large military forces maintained in India. Moreover, as in the case of foodgrains, so in the case of small coins, a certain degree of small scale hoarding prompted by fear of shortage was perhaps natural. To this natural sort of hoarding was added hoarding for profit, either with a view to sale of small coin at a premium or, as in the case of pice, in anticipation of a rise in the price of the metal to a level which might make coin melting profitable.

4. *Measures to Meet the Situation.*—As a first step, to meet the situation, under the Defence of India Rules dealings in small coin at other than their face value was prohibited and by a Notification dated the 17th April, 1943, it was made an offence to possess small coins in excess of one's genuine personal or business requirements. The best remedy against hoarding, however, was obviously restoration of public confidence, creation of strong public opinion against hoarding of coins, and Government's ability to provide adequate supplies for all genuine requirements. In this connection it may be observed that the Government mints issued new series of small coins to their maximum capacity. The rate of output in the latter half of 1943 rose to over 160 million pieces a month as compared to 16 million pieces in September, 1939. The total number of pieces manufactured during the first three years of war amounted to 1,000 million, while

during 1942-43 as many as 963 million pieces were issued.

5. *Change in the Composition of Small Coins.*—The issue of small coins in such large quantities did alleviate the situation, but it necessitated some change both in the composition and weight of small coins. A new half-anna nickel-brass coin was issued in January 1942 and a new design of pice weighing only 30 grains instead of 75 grains, round in shape with a circular hole in the middle was given out to the public in the beginning of February, 1943. The new pice, however, soon became scarce owing to its profitable use as a washer.

The standard weight of the two-anna, one-anna, half-anna and quarter-anna (or pice) pieces was fixed with effect from 23rd January, 1943, as 90, 60, 45 and 30 grains troy respectively and in the making of these coins a remedy not exceeding one-fortieth of the standard weight was allowed.*

6. *Expansion of Paper Currency.*—The most striking fact about Indian currency, however, during this war has been its enormous expansion—nearly Rs. 670 crores till the end of December 1943. On the 1st September, 1939, the total notes in active circulation were Rs. 182·13 crores, on the 31st December, 1943 they were Rs. 840.8 crores—a rise of 362%. This increase of note issue has been accompanied by an increase of over Rs. 366 crores in demand deposits of schedule banks which were Rs. 134.4 crores on 1st September, 1939 and Rs. 500.8 crores on 31st December, 1943. Besides, there has been a considerable amount of war-time (1939-43) absorption of rupee coin as

**The Gazette of India,* dated 22nd January, 1943.

well as of small coin, Rs. 125 crores and Rs. 31 crores respectively. The velocity of circulation of currency and credit is no doubt low during this war, but how low it is impossible to determine.

In the expansion of currency and credit, however, India is not alone ; it is a marked feature of war-time economy of nearly all countries of the world. What is remarkable is the high position which India occupies in this regard. According to the League of Nations Monthly Bulletin of Statistics for July 1943, India at the end of 1942 stood sixth, the first five countries with the largest expansion of their currencies being Iraq, Palestine, Turkey, Iran and Egypt. In view, however, of the rapid rate of increase which has gone on in 1943, it is not improbable that India now ranks first or second.

7. *Increase in Sterling Securities.*—The expansion of Indian currency has been secured by the expansion of sterling securities, which now constitute the biggest single asset in the Issue Department of the Reserve Bank of India. The sterling securities rose from Rs. 59.5 crores on the 1st September, 1939 to Rs. 734.8 crores on the 31st December, 1943—a rise of Rs. 675 crores or 1,125 per cent ! The rupee securities were 37 crores on 1st September, 1939 and 58 crores on the 31st December, 1939—a rise of 21 crores or 57 per cent. The gold coin and bullion throughout the period remained stationary at Rs. 44.4 crores, while silver coin has actually declined by Rs. 63 crores from Rs. 76 crores to Rs. 13 crores (including one-rupee notes).

It will thus appear that the law has been observed in form, but not in spirit. The Reserve Bank Act requires that at least 40 per cent. of the paper currency

reserve should be in the form of gold coin and bullion and sterling securities. This percentage improved from 63 per cent. on 1st September, 1939 to 92 per cent. on December 31, 1943. When the Reserve Bank Act was passed, sterling securities were regarded in the same category as gold exchange and they were provided to facilitate dealings in foreign exchange. The Reserve, however, was so composed as to have on the 1st September, 1939, 35% of silver coin, 20% of gold, 28% of sterling securities and 17% of rupee securities. On the 31st December, 1943, however, the Reserve consisted of 1.5% silver coin (including one-rupee notes) 5.2% gold, 6.8% rupee securities and 86.5% sterling securities.

Such a change in the relative position of the various constituents of the Issue Department of the Reserve Bank was never contemplated and cannot be looked upon with equanimity. What was contemplated, however, was the strengthening of the gold portion of the Reserve. Had this been done, India would have gained not only by the rise in the value of the yellow metal, but she would have possessed the best form of currency reserve. As it is, there is no safeguard against the depreciation in the value of sterling securities and India is faced with the difficulties of their conversion. This creates a new obstacle in the way of India's monetary freedom.

The proportion of foreign sterling securities in the reserve should be regulated by statutory provision and should not be allowed to exceed say 30 per cent. Such a provision would not only be in conformity with modern practice in most countries, but could also act as a wholesome check to inflation.

8. *Rise in Prices.*—An increase in the media of payment by itself, however, need do no harm to a country's economy, if at the same time it is accompanied by a corresponding increase in the volume of production. The analyses made by several economists do not reveal that the volume of production in India during the war has increased, on the whole, by more than 20%. Thus the increase in the quantum of the media of exchange, despite the small decline in the velocity of circulation, has been out of all proportion to the increase in the volume of goods.* To the extent to which this is the case, it has contributed to considerable rise in prices.

The Calcutta index number of prices (July 1914—100) rose by September 1943 to 349, the Economic Adviser's index (August 1939—100) being 236·3. But these indices, of course, take no account of the prices in the black markets in which India abounds. Indeed, the country as a whole may be regarded as one black market for most of consumers' goods. The prices of food and clothing—the two essentials of human life—are certainly four or five times the pre-war level, while in certain areas and at certain times wheat and rice have been sold at even more than ten times the pre-war rate. The official indices of prices are thus obviously out of relation to the actual facts of the situation. Even so, they compare most unfavourably with the changes in prices in the United Kingdom or the United States which recorded but a rise of 66% and 35% respectively† by the middle of 1943.

The enormous rise in Indian prices cannot, however, be ascribed as due to inflation alone. Prices

*For a full discussion see *History and Problems of Indian Currency* by D. K. Malhotra, 1944.

†*League of Nations' Monthly Bulletin of Statistics*, September, 1943.

would have risen even otherwise due to a number of war-time factors such as the shortage of imports, restrictions in transport facilities and, above all, due to the scarcity of goods created by the enormous purchases by the Indian, British and American Governments accompanied by no appreciable expansion in the home production. This is a most important fact. It needs to be emphasised, because it has failed to attract sufficient attention although it has been at the root of the whole trouble.

9. *Evils of Inflation.*—But inflation cannot escape its share of evils, inasmuch as it did form an important factor in the price movements, fanning speculation and giving rise to a crop of rumours which cumulatively led to a demoralisation of business and the breeding of black markets. Moreover, inflation by throwing for a time a lot of dust into the eyes of the people as well as government—who were both confused—led to a greater emphasis being placed on all other measures except those for increasing the physical production of goods. But another evil with which inflation has been associated is the greater dependence at present of the value of the rupee on the external rather than internal circumstances. The value of the rupee since 1942 has been increasingly determined *more* by the policy pursued by His Majesty's Government in regard to the extent of purchases of goods and services in India and the manner of their payment *than* by any other single factor. As a result of this policy—coupled with other adverse factors already noticed, *e.g.* fall in imports—the value of the rupee took a wholly uncertain course, falling considerably by August 1943 as compared to August 1939.

The fall in the value of the rupee has hit the people most decidedly. The present prices of food and clothing and many other commodities have since 1942 risen to levels far beyond the reach of the ordinary man. In India, where most of the people are poor, this means starvation; and we know that people have been dying by scores of thousands in Bengal and other parts of the country for lack of the means with which to buy food. India does not have any satisfactory cost of living index numbers, but by no stretch of imagination can it be said that the rise in wages and incomes of most of the people has been anywhere in the same proportion as the rise in their cost of living. Indeed it is obvious to any one who cares to understand that at the present level of prices it is impossible for most of the humbler employees in Government and non-Government service alike to make both ends meet. Nor is the condition of the poor peasant or labourer on the land any better.

Professor Vakil* likens inflation to robbery. Both deprive the victim of his possessions, but with this difference that robbery is visible, inflation is invisible; the robber's act is sporadic, inflation acts continuously; the robber's victim may be one or a few at a time; the victims of inflation are the whole nation; the robber may be dragged to the court of law, inflation is legal. The worst of it is that inflation once on the way feeds on itself and unless it is deliberately checked by Government, it is bound to end in currency collapse.

10. *Official* vs. *Non-official Attitude.*—Regarding the official attitude towards inflation, it is interesting to note that the Government of India, like His Majesty's

*Professor C. N. Vakil was the first economist to draw the attention of the people to the presence and evils of inflation in India.

Government in the United Kingdom during the last war, *at first* denied that there was any inflation. Later, it was said that although the recognised elements of inflation were present, there was no evidence that inflation was present in any serious form. Introducing the Budget for 1943-44 the Hon'ble Finance Member pointed out that currency expansion was due to increased demand for cash from the public, that there was no credit inflation in the country and there was at any rate not 'the remotest risk of inflation of the nature and on the scale which occurred in some of the countries which suffered utter defeat in the last war.' It was only in November 1943 that even the Secretary of State for India admitted that India was suffering from inflation and that it was one of the causes—Mr. Pethick Lawrence considered it was one of the main causes—of the food distress and deaths. But by the end of 1943 the Government so fully admitted it that anything it did was put down as an anti-inflationary measure! Introducing the new Budget for 1944-45 the Finance Member said, " we have all become conscious of the dangers of inflation " and he considered it " his paramount duty to deal first with the menace of inflation."

Among Indian businessmen, some, like Mr. G. D. Birla, thought that the rise in prices was due to the scarcity of goods, rather than the excess of purchasing power.* Twenty Indian economists in a public Manifesto (dated 12th April, 1943) gave expression to the view that 'the rapid rise in the general price level during the past two years and the enormous currency expansion in India were causally related.' As a matter of fact inflation and the rise in prices to which inflation did contribute—both arose out of the unusually heavy war-time demand for Indian goods†, while the supplies failed to increase either immediately or in the long

**Inflation or Scarcity* by G. D. Birla, New Delhi, March, 1943.
†Inflation, as a method of war finance, is dealt with in the next chapter.

run. Inflation was thus, according to Professor Brij Narain*, a symptom and not the disease itself, the disease being the war-time requirements of foreign governments and the weakness of Indian economy to meet them without hurting itself or the people.

11. *Anti-Inflationary Measures.*—The position of the Government was that they could not stop the issue of currency without stopping the war. They could, of course, economise in the expenditure, and they had done all that was possible in that direction. They had also gone as far as they could with taxation and borrowing—largely voluntary and to some extent even compulsory. They realised how much speculation contributed to inflation and they had tried to fight speculation in various ways. They had also tried to control the prices of commodities, so far as circumstances of the Indian situation permitted. A number of Ordinances were promulgated, notably the Ordinance restricting the floating of new concerns, the Cloth Control Order, the Foodgrains Control Order, and the Anti-hoarding and Anti-profiteering Ordinance.

According to the *Civil and Military Gazette* (October 29, 1943), however, none of the attempts so far made could inspire the slightest confidence. 'India well knows the fiasco which compelled the withdrawal of price-control over foodgrains,' said this English daily, while the two other recent measures, the Cloth Control Order and the Hoarding and Profiteering Prevention Ordinance have achieved little and are not likely *in themselves* to achieve much. On the other hand, these Orders, as at present administered, without stopping profiteering threaten to paralyse the ordinary

*Cf. Professor Brij Narain's article in *Investment and Finance*, 18th April, 1943.

business of life, for under their wide sweep no business man can regard himself as safe.* If in the end, all business is at an end, it will be like curing the disease by killing the patient.

Inflation should have been avoided at the very source, *i.e.*, by not resorting to it as a method of war finance. In any case it could and should have been counteracted by a multiple policy of increasing consumers' goods—specially foodgrains, foodstuffs, cloth and material for building houses which have all been in such short supply, steep taxation of higher incomes and large-scale borrowing.

12. *The Indian Money Market before the War.*—Turning to the Indian money market, before the War the first thing to note is that its constituents were of varying origin and complexion. Beginning with the Reserve Bank of India which was the youngest institution running in its fifth year, we had the Imperial Bank of India which had completed eighteen years of useful work; Co-operative Credit Societies born in 1904; Joint Stock Banks which may be said to date definitely from 1860, for it was by Act VIII of that year that the principle of limited liability was first applied to the joint stock banks; foreign exchange banks introduced into India in the latter half of the nineteenth century; and the indigenous bankers and money-lenders who baffled classification and were centuries old. There were also the Loan Offices, Nidhis and Chit Funds, Post Office Savings Banks and Stock Exchanges.

13. *Immediate Effect of War.*—The immediate effect of the War on the money market was a certain

**Sir Manohar Lal's Address* to the Punjab Federation of Industries, *The Tribune*, Lahore, February 12, 1944, p. 4.

amount of hurried withdrawals from the banks. The consolidated return of the scheduled banks on the 8th September, showed a decline of Rs. 5.12 crores in their demand and time liabilities and of Rs. 6.98 crores in their balances with the Reserve Bank. The run on the non-scheduled banks was even greater. As a result, the call rate in Bombay advanced to 1¼ per cent., while the three months deposit rate advanced to 2½ per cent. The withdrawals, however, proved to be a temporary phase. The public soon adjusted itself to the new situation and the call rate slipped back to ½ per cent. The Bank of England rate was also reduced on the 28th September to 3 per cent. (from 4 per cent. to which it had been raised from 2 per cent. on the 24th August, 1939 on the imminence of the outbreak of war) and to the pre-war level of 2 per cent. by the end of October, 1939. The situation, therefore, eased.

14. *Main Trends of Banking during War.*—While the number of schedule banks—Joint Stock banks with a paid-up capital and reserve of Rs. 5 lakhs and over included in the Second Schedule of the Reserve Bank of India had risen from 57 on the outbreak of the war to 67 at the end of the Bank year 1942-43, the total liabilities of the banks more than doubled, rising from Rs. 236,60,83,000 on 1st September, 1939 to Rs. 549,22,78,000 on 25th June, 1943. The figure for the week ending 31st December, 1943 was Rs. 658,09,68,000. The increase was largest, however, in the case of demand liabilities which stood at Rs. 134 crores on 1st September, 1939, Rs. 418 crores on 25th June, 1943 and Rs. 500.8 crores on 31st December, 1943. The figures for time liabilities were Rs. 102 crores, Rs. 131 crores and Rs. 157 crores respectively. Thus

it is significant that between the 1st September, 1939 and 31st December, 1943 the proportion of demand liabilities to total liabilities improved from 56 to 76 per cent., while that of time liabilities fell from 44 to 24 per cent. Of the improvement in demand liabilities of Rs. 284 crores (212%) up to end of June 1943 during a period of nearly four years of War, a difference of as much as Rs. 151 crores occurred in one year alone (from 26th June, 1942 to 25th June, 1943.) The balances of the scheduled banks with the Reserve Bank also improved from Rs. 25 crores on 1st September, 1939 to Rs. 89 crores—over three and a half times—on the 31st December, 1943. In spite of the large rise in their deposits the advances of the scheduled banks in India were only Rs. 161 crores on 31st December, 1943 as against Rs. 102 crores on 1st September, 1939.

The remarkable increase in the demand liabilities shows a very marked liquidity preference on the part of the general public, while the smallness of advances and the large cash balances of the reserve bank are the result of easy conditions in the money market. Thanks to the easy money conditions in the country, very few banks have had the need in recent years to approach the Reserve Bank for financial accommodation. During 1942-43, for instance, the total amount of loans granted by the Reserve Bank to four banks—one of the four being a provincial co-operative bank, was less than Rs. 3½ crores.*

15. *Indiscriminate opening of Banks and Branches.*—Another feature of War banking is the increase in the number of banks. That the number of offices of scheduled banks including head offices,

**Report of the Central Board of Directors of the Reserve Bank of India* for the year ending 30th June, 1943, p. 24.

branches and pay offices rose during the War from 1,277 at the end of 1939 to 1,600 by 30th June, 1943 is certainly to be welcomed in a country like India which at present is starved of modern banking facilities. But that most of the new banks and their branches should have been opened in places already possessing joint-stock banks is unfortunate. In some places this has resulted in a marked overcrowding of banks. Of the 101 offices added during 1942-43 only 18 were in places where formerly there was no office of a joint-stock bank.

The still more unfortunate feature of the recent extension of banks in some cases is the character of their capital structure which from the strictly banking point of view is far from being sound and stable. There is undue divergence between authorised and subscribed capital, on the one hand, and the subscribed and paid-up capital on the other. Moreover, some banks have in addition to ordinary shares not only preference but even deferred shares and the distribution of share capital is so manipulated as to give the owners of a small amount of capital a large amount of control over the working of the institution.

16. *Managing Technique.*—The management of some of the new banks also leaves much to be desired. It is neither strong nor independent, but entangled with a number of commercial or speculative ventures. What is worse is the indiscriminate appointment of untrained and sometimes incompetent men to fill the highest offices requiring technical knowledge and long banking experience. Among new Directors amateurs and speculators have rushed in, where angels ordinarily feared to tread. It will be some time before the evil

mends or ends and while it lasts; to put it moderately, it tends to bring down the banking profession in public estimation.

Some of the recent bank balance-sheets are window-dressed and some of the banks have manoeuvred to bring up the market values of (their) shares to a level which could bear no relation to their permanent earning capacity. It is these unhealthy tendencies which led the Government of India to promulgate Defence of India Rule 94(A)* and the Reserve Bank of India to observe that "in the course of their examination of recent banking floatations the Board have also come across a number of undesirable features in the organisation and management of new banks."

But the Bank has deferred the problem for consideration along with the question of comprehensive banking legislation till after the war. In the meantime there is no reason to suppose that these undesirable features will not develop and damage the Indian banking structure and organisation to a marked extent. In other countries, for instance Australia and Canada and even China, there is stringent control of banking during the war. Indeed War had provided the best opportunity for the State regulation of banking on strict lines of prudent finance in a country like ours, where development of banking had been so long and so much neglected by the State. But India let it pass.

17. *Banking Legislation.*—It is well known how before the war a number of petty banking companies were adopting questionable methods of attracting business. To their number the war has now added

*This Rule prohibits the floatation of new companies or the raising of any fresh capital by sale of shares, stocks, bonds and debentures without the consent of the Government of India.

many smaller and even some larger banks and in a country only too familiar with but forgetful of bank failures, a Bank Act is in the nature of a necessity. The problem created during the war is not only to purge small banks but even the big banks through the instrument of suitable legislation. This unfortunately is put off for the duration of the war. The pre-war position thus continues except that Section 277F in Part XA of the Indian Companies Act of 1913 has been amended so as to require that a company which calls itself a bank complies with the provisions of law relating to a bank, in so far as they exist at all. That this has been achieved with effect from 1st November, 1943, is in itself a sad but lucid commentary on the state of Indian banking legislation and an evidence of the slow progress in sound banking notwithstanding the stimulus of the present war.

In the beginning of 1944, the Government of India have introduced a Bill further to amend the Companies Act of 1913 with a view to controlling the capital structure of banking companies and limiting the scope of their managing agencies. This is a step in the right direction, but this kind of piecemeal legislation can serve only as a palliative and does not, of course, constitute a real cure.

18. *Banking Intelligence and Research.*—It is interesting to observe that the intelligence and research section of the Reserve Bank was during the war put under the charge of an able economist, Dr. B. K. Madan, who was formerly Economic Adviser to the Punjab Government. Recently this Section has been extended with a view to providing for the fuller study of problems of central banking and war time fiscal and monetary

development as a background to the proper consideration of important questions during and after the War. This is as it should be. But such studies cannot be of much value, if information gathered and analysed is not shared with the public generally. It is most deplorable that even the publication of the Statistical Tables relating to Banks in India covering the year 1942 has been held over for more than a year with the approval of the Government of India in view of the acute shortage of paper in the country.* The people have a right to be fully informed of all that goes on in banking and in particular to see that inefficient institutions are removed from the list and only efficient newcomers are added.

Before concluding this chapter reference may be made to an appointment which has given the greatest satisfaction during the War, that of Mr. (now Sir) C. D. Deshmukh as the Governor of the Reserve Bank of India. He is the first Indian to hold the highest office in Indian banking and for India it is a matter of general gratification.

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*_Report of the Reserve Bank of India_, Ninth Annual General Meeting of Shareholders, 9th August, 1943, p. 25.

"It is the longest purse that conquers now, not the longest sword, for Money is Power."—Daniel Defoe (in "A Plan of the English Commerce," 1728.)

V. WAR AND PUBLIC FINANCE

1. *Magnitude of War Finance.*—No war has ever caused a greater strain on the finances of the belligerent countries than the one which is still with us. According to the latest report on Currency and Finance, the total expenditure between 1938-39 and 1942-43 swelled to over ninefold in the United States, about fivefold in the United Kingdom, sevenfold in Canada, between five and sixfold in Australia and threefold in Japan, even although Japan had already been on a war footing since 1934-35. In the United States defence expenditure in 1942-43 was seventy times that in 1938-39, in the United Kingdom twelve times. In both the United States and the United Kingdom defence expenditure was about 90 per cent. of the total expenditure in 1942-43. By February, 1941, the total war expenditure of the United Kingdom at £9,710 million had already exceeded the cost of the last war at £9,530 million. Again, the value of goods and services received by the British Commonwealth from the United States under Lease-Lend System alone amounted by 1st March, 1943, to £1,107.5 millions. From March 11, 1941, when the Lend-Lease Bill was passed* to the end of November,

*Before the Lend-Lease Britain had spent over £3,000,000,000 for U. S. supplies and had liquidated nearly all her U. S. investments to help pay for them. *The Statesman*, Delhi, January 9, 1944, p. 7.

1943, the total value of Lend-Lease aid was 18,608,553,000 dollars.* The Victory Budget of U.S.A. for the financial year ending 30th June, 1945, is put at 100,000 million dollars (Rs. 33,000 crores).†

India has followed the other leading countries in war expenditure at no distance, and having regard to her capacity, her performance is most remarkable. According to the Government of India Budgets the total expenditure rose well over fourfold from Rs. 85 crores in 1938-39 to Rs. 346·93 crores in 1942-43, the latter being the revised estimate. The total revenue in 1938-39 was Rs. 84.5 crores and the estimated revenue for 1943-44 Rs. 254·5 crores, thus resulting in a practically balanced budget in 1938-39 and a deficit of Rs. 92·43 crores, according to the fifth war budget, in 1943-44. The war budgets of India are budgets of increasing expenditure, increasing revenue and increasing deficits—the largest increase being in war expenditure.

The defence, expenditure in the Indian budget, has risen to over six and-a-half times from Rs. 46.18 crores in 1938-39 to Rs. 301 crores in 1943-44. Much of this rise has taken place during the last two years, ever since the outbreak of war with Japan in December, 1941. The total defence expenditure of the last two years (1942-43 and 1943-44) on the present estimates comes to Rs. 565 crores, or Rs. 282 crores a year—about three times the pre-war annual revenue of India. The total defence expenditure including capital expenditure from 1939-40 to 1944-45 (budget) adds up to about Rs. 1,100 crores. It might well be more. But this is not all.

*_The Tribune_, Lahore, January 9, 1944, p. 4.

†_The Statesman_, Delhi, January 15, 1944, p. 3.

2. *Financial Settlement with United Kingdom.*—A Financial Settlement between His Majesty's Government and the Government of India was negotiated in November, 1939. In accordance with this settlement the Defence Budget of India was to comprise of : (*a*) her pre-war normal budget of effective charges of Rs. 36.77 crores ; (*b*) a sum in adjustment of the normal budget for rise in prices ; (*c*) the cost of Indian war measures, that is, such war measures as can be regarded as purely Indian liabilities by reason of their having been undertaken by India in her own interests ; and (*d*) a contribution towards the additional costs of her external defence for which India has already paid a lump sum of one crore of rupees.

For the rest, as pointed out by the Finance Member, His Majesty's Government is to pay for all general defence and supply expenditure incurred by India, subject to separate post-war negotiations concerning the liability for surplus war stores in India acquired in the common interest.

Enormous sums of money have since been spent in India by His Majesty's Government of the United Kingdom. The portion of expenditure recoverable from the British Government in any one year now well exceeds the amount spent by the Government of India themselves on Defence in the country. According to such information as is available, during the five years 1939-40 to 1943-44 the total expenditure on Defence and Supply brought to account in India's books amounts to Rs. 1,641 crores of which, under the terms of the Financial Settlement, India's share comes to Rs. 715 crores and His Majesty's Government's to Rs. 926 crores. Here it is interesting to observe that the total expenditure of India in the last war from 1914 to 1918

including India's free gift of Rs. 190 crores did not exceed Rs. 550 crores.

Besides, there are the U.S.A. supplies to India. According to the report of the Lease-Lend Administrator, the value of the Lease-Lend goods and services received by India up to 31st March, 1943 is estimated at $300 million or roughly Rs. 100 crores. According to the Finance Member,* if Lease-Lend goods and services continue to arrive in India at the present rate their total value up to the end of 1944-45 may be of the order of Rs. 350 crores, but the exact amount of India's liability is unknown at present. As against this, the reciprocal aid rendered to the American forces stationed in India is put at Rs. 26 crores in 1943-44 and Rs. 43 crores in 1944-45 (Budget). The total cost of such aid up to the end of 1942-43 was Rs. 12¼ crores, and would be at least Rs. 81 crores by the end of March 1945.

3. *Vagueness of the Financial Arrangements.*—In spite of the Financial Settlement arrived at between India and Great Britain, the exact amount of the total or net liabilities incurred by one to the other cannot at present be determined. Certain adjustments, it has been pointed out, will have to be made within the framework of the existing settlement, in order to determine exactly the share of each country in what are called joint-war measures. As regards the capital expenditure on supply measures financed in the first instance by His Majesty's Government, it was proposed in 1942-43 that India should provide one-half the capital cost and should then own all the assets already created or to be created. But so far as capital outlay on the provision of airfields and other operational facilities is

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**Finance Member's Budget Speech*, 29th February, 1944.

concerned, it was found that all the airfields etc. included in the 1943-44 programme were necessary to the defence of India and, therefore, the whole of such capital outlay has been charged to India's account in the Revised Estimates for 1943-44. India's liability for the cost of forces serving within her geographical frontiers is subject to the limits (or ceilings) as laid down and revised from time to time in the light of actual or probable threats to India's security. Moreover, certain matters, *e.g.*, non-effective charges and liability for surplus stores are yet subject to separate post-war discussion and settlement. Regarding the Lease-Lend Supplies to India, there is yet to be an agreement between India and U.S.A. Until that happens and the agreement is actually put into effect, Indian liability on this account remains undefined.

The vagueness of the financial arrangements has led to some public apprehension and much public criticism. These are born of the consciousness of the inherent weakness of Indian financial resources as compared to those of other countries. When final financial accounts are made up, it is not improbable that the total war expenditure in India (including that incurred on behalf of U. K. and U.S.A.) will be found to exceed well over Rs. 600 crores a year, at the present rate of expenditure. With an accelerated rate, the total expenditure will accordingly rise.

4. *Methods of Finance.*—If this war is different from the last war in being more widespread, longer and much more expensive, it is also, on the whole, being much better financed in most countries. Firstly, while both taxation and borrowing have been tapped everywhere, taxation is preferred to borrowing. For instance, in Great Britain 56 per cent. of the total

expenditure was met in 1943-44 from taxation, as against 21 per cent. by 1917. Secondly, the proportion of direct to indirect taxation is higher now than it was during the last war or even at the beginning of this war. Thirdly, in borrowing more reliance is placed on personal savings than on bank credit. Fourthly, borrowing has been effected on much lower rates of interest in this war than in the last war. The average rate of war loans in U.K. during 1939-43 works out to only $2\frac{1}{2}$ per cent. as compared to 5 per cent. during 1914-17. The average rate for the floating debt has been about 1 per cent. as against $4\frac{1}{2}$ per cent. during the last war.* Above all, inflation has been successfully held in check in countries like the United Kingdom.

5. *Peculiarities of the Indian Situation.*—In India the problem of war finance was complicated at the very outset by a complex of circumstances peculiar to the country. With roughly eighty per cent. of the population on or below the poverty line, the opportunities of immediate expansion of State revenues were seriously limited. The only real way was first to raise national income substantially through larger production in industry as well as agriculture. This, though possible, was practically not attempted. Moreover, rightly or wrongly, the Government were not sure of the fullest co-operation of the people and the people did not repose the fullest confidence in Government. And thirdly, the Government of India were not well-equipped with the necessary economic data and the necessary technical and administrative machinery to cope with the complexities of modern war-time taxation measures. Thus the very foundations for the building of sound war finance were lacking.

**Report on Currency and Finance*, 1942-43, page 2.

6. *Increase in Taxation.*—Attempts were made to apply the methods of financing war followed in England to Indian conditions, as far as they would permit. It is a well-known fact that taxation already pressed heavily on India before the War, but resort was had to taxation for finding additional revenue to a considerable degree. The tax revenue in India more than doubled in four years—being Rs. 72.34 crores in 1938-39 and Rs. 154.26 crores in the Budget of 1943-44—an increase of Rs. 81.92 crores, while the taxes in the Budget of 1944-45 are expected to yield an additional revenue of Rs. 23.12 crores.

7. *Proportion of Tax Revenue to Total Expenditure.*—The proportion of tax revenue to total budget expenditure in India during 1943-44 was about 60 per cent., and of the total tax revenue as much as 58 per cent. was contributed by taxes on income or direct taxes and 42 per cent. by indirect taxes. In 1938-39 the proportion of direct and indirect taxes was 22 and 78 per cent. respectively. The alteration in the ratio of direct to indirect taxation in favour of the former *prima facie* suggests that there is a more equitable distribution of the burden of taxation as between the rich and the poor, benefiting the latter. This, however, is not really the case. There has been an increase not only in direct taxation, but also in indirect taxation, although of the two the increase in the former has been much greater. Further, the increase in the case of direct taxes has not always been sufficiently progressive with a view to securing equitable distribution of the burden as between different sections of the people. The matter deserves a close examination from the point of view of the effects on the people of the variations in both the character and magnitude of the taxes caused by the war.

8. *Excess Profits Tax.*—Among the direct taxes which provide the bulk of the tax revenue, the largest increase in central revenues during the present war is from a new tax called the Excess Profits Tax first introduced in India in 1940. According to the Excess Profits Tax Act of 1940 all excess profits made in industry and business (other than the profits of doctors, solicitors, accountants and insurance companies) over and above a minimum of Rs. 36,000 accruing after September 1, 1939, were to be made over to Government at the rate of 50 per cent. This rate was raised to $66\frac{2}{3}$ per cent. as from 1941-42. The Excess Profits Tax was in the budget of 1943-44 estimated to yield a revenue of Rs. 40 crores (Rs. 33.8 crores from corporations and Rs. 6.2 crores on incomes other than corporations). According to the revised estimates the yield is expected to be Rs. 62.25 crores.

From May 1943 all the assessees to Excess Profits Tax were required to make a compulsory deposit with the Government of an amount equivalent to $13\frac{1}{3}$ per cent. of their Excess Profits and the Government were to add to it half the amount. As from 1st April, 1944 the amount of the compulsory deposit has been raised to $\frac{19}{64}$ of the tax. This fund, it is intended, will be available for the purpose of post-war rehabilitation.

The Excess Profits Tax in India is but a poor imitation of a similar tax in the United Kingdom where the rate is 100 per cent. of which 20 per cent. is to be refunded at the end of the war. In India $66\frac{2}{3}$ per cent. of the excess profit is taken as excess profits tax and $13\frac{1}{3}$ per cent. as income and super taxes. Of the remaining 20 per cent. about all of it is to be taken as compulsory deposit. Thus the main difference in the practice

of the two countries is that in India the E. P. T. assessees are promised a return of $6\frac{2}{3}$ per cent. as governmental contribution to the compulsory deposit payable after the war, and they are also to get an interest of 2 per cent. on their own contribution to the refundable deposit.

9. *Income-Tax.*—Another direct tax which has proved to be a good yielder of revenue for the purpose of financing war is the income-tax. The yield from income-tax rose from Rs. 15.2 crores in 1938-39 to Rs. 59.2 crores in 1943-44 (Budget)—an increase of nearly four times in five years. Likewise, Corporation Tax which yielded only Rs. 2 crores in 1938-39 was estimated to yield Rs. 8.8 crores during 1943-44. The Budget estimates for 1944-45 provide for a total of Rs. 96 crores under Income and Corporation taxes. In the case of income-tax the taxable limit of annual income was lowered in 1942-43 from Rs. 2,000 to Rs. 1,500 and the basic rates of tax increased in the case of all incomes exceeding Rs. 2,000 (beyond the first Rs. 1,500) uniformly by $66\frac{2}{3}$ per cent. The rates of super tax levied in 1939 on incomes beyond Rs. 25,000 were raised 50 per cent. uniformly in 1942-43 and further raised in 1943-44 by 6 pies per rupee in all cases. The Companies' income-tax on the whole total income was raised by $66\frac{2}{3}$ per cent. from 30 pies to 50 pies and the Corporation tax on the whole total income was doubled from 1 anna to 2 annas per rupee.

According to the Budget proposals for the financial year 1944-45, the minimum taxable income will be raised from Rs. 1,500 to Rs. 2,000 and there will be no increase in the tax on incomes up to Rs. 10,000, but on incomes between Rs. 10,000 and Rs. 15,000 the central surcharge will be increased by 2 pies, and

on incomes above Rs. 15,000 the surcharge will be increased by 4 pies, from 20 to 24 pies in addition to the basic 30 pies. As regards super tax, there will be an increase of half an anna in the Central surcharge on incomes between Rs. 35,000 and Rs. 2 lakhs. The Corporation tax will also be raised by one anna to a rate of 3 annas in the rupee, but a rebate of one anna in the rupee will be given on so much of a company's profits as is not distributed in dividends other than dividends payable at a fixed rate.

The above changes introduced in the new Budget for 1944-45 are in the right direction, but taking income-tax during the war, as a whole, it will be seen that the burden is unduly heavy on the lowest incomes, and is insufficiently progressive in the case of higher income groups. Indeed the present income-tax rates (inclusive of surcharge and super tax) violate against two sound canons of war taxes, namely : First, incomes below the minimum amount necessary to purchase a specified standard of consumption goods should be exempted. Second, above this minimum the higher the income of the individual the more should his previous consumption of goods and services be restricted.* If these principles were rightly applied to taxes in India, and there is no economic reason why they should not be so applied, the lowest limit of taxable income may have to be fixed with reference to the prevailing prices somewhere at Rs. 5,000 and on grounds of equity the entire amount of very large incomes say above Rs. 50,000 should be taken. Steeply progressive rates of taxation would have to be imposed on the slab system on incomes above Rs. 5,000 and below Rs. 50,000.

Studies in War Economics, I. L. O., Montreal, 1941, page 29.

10. *Indirect Taxes, Customs and Excise.*—Coming to indirect taxes, Customs revenue which occupied a leading position in the Indian tax system before the war has considerably declined from Rs. 40 crores in 1938-39 to Rs. 26 crores in 1943-44 (Revised Estimates). The general surcharge of 20 per cent. first levied in 1942-43 on customs duties on almost all commodities is to continue, while the surcharge on tobacco and spirits will be 50 per cent in 1944-45. There is no getting away from the fact that, generally speaking, Customs revenue must continue to fall, so long as the war lasts. The fall in the customs revenue, however, has been more than made up by the rise in Central Excises from Rs. $6\frac{1}{2}$ crores in 1939-40 to Rs. 26 crores in 1943-44 (Revised Estimates).

The pre-war excise duty on motor spirit and sugar has been raised during the war by 50 per cent. and on matches by 100 per cent. The excise duty on kerosene oil was increased in 1942-43 from 2 as. $9\frac{3}{4}$ pies to 3 as. 9 pies per gallon. There were new excise duties on tyres and tubes first levied in 1941-42 and on tobacco and vanaspati ghee introduced for the first time in 1943-44. The rates of duty on unmanufactured tobacco and on cigars and cheroots have been raised and three new excise duties on tea, coffee and betelnuts at the rate of 2 as. per lb. introduced in the Budget of 1944-45.

In the case of taxation on consumers' goods the principle is well understood that it should apply, as far as possible, to luxuries and not to necessaries. This principle has been followed by the United Kingdom even during the war. There does not seem to be any justification, therefore, for departing from it in the

case of matches, kerosene oil, sugar, vanaspati ghee, tobacco and tea which to most Indians in the present conditions of life, are necessaries and certainly not luxuries.

11. *Taxation and Industry.*—The present method of taxing industry is according to the Federation of Indian Chambers of Commerce, not in the economic interest of the country and without substantial changes is likely to hold back the industrial development in the post-war period.* The high level of income and excess profits tax leave no margin at present to enable an industry to build up any reserves. It is true that the industry will get back after the war about 20 per cent. of the excess profits tax together with 2 per cent. interest, but this amount obviously bears no relation to the heavy wasting of assets which is going on during the war and to the high lay-out and replacement costs which will have to be met, as soon as the war ceases, if Indian industry is to start off in an efficient condition to face the future.

In the United Kingdom, questions concerning incidence of income-tax and excess profits tax on industry have already formed the subject of discussion between the representatives of industry, on the one hand, and the Board of Inland Revenue on the other. The discussions covered two important questions of (1) terminal losses—that is, the expenses or losses that may be involved in changing back from war-time to peace-time conditions, and (2) repairs and renewals which have fallen due to be carried out, but cannot be carried out now and are therefore being deferred until the end of the war. As regards (1) the British

***Vide Chamber's Letter* dated 3rd Nov., 1943 to the Finance Department, Government of India.

Chancellor of the Exchequer stated: "I think the industry is entitled to an assurance—which I give—that steps will be taken to see that all the expenses of a revenue nature which have been incurred in earning the excess profits will be allowed as a deduction in computing the liability of E. P. T." Assurance was also given that the entire cost of changing from war-time to peace-time conditions in regard to the lay out of factories would be allowed for taxation purposes. About (2) the Chancellor gave an undertaking that when the deferred repairs and renewals were in fact carried out the tax already collected would be remitted.*

Both in the United Kingdom and the United States of America war is responsible for immense improvements in industrial lay out, plant and technique and Indian industry will need to be adequately equipped on post-war standards, if it is to have a proper chance. In India, therefore, the need is all the greater that the taxation methods employed must be such as would help and not hinder post-war industrial development of the country. To this end definite assurances must at once be given to industry in regard to the payment of income-tax and excess profits tax rebates and refunds commensurate with Indian requirements.

Apart from the allowances essential for first class lay out and plant, the industries must also be encouraged to build strong internal reserves and spend adequately on research—which at present is not the case. In this matter, the tax system of India should make even a heavier discrimination than is done in U.S.A. in favour of undistributed profits which are ploughed

*_The Eastern Economist_, New Delhi, September 24, 1943, pp. 656—657.

back into business. Liberal tax deductions should also be allowed for the costs of research.

12. *Increase in Revenue from Transport and Communication.*—Another important source of revenue during the war has been the transport and communication services. The contribution of railways to the central revenues rose from Rs. 1.4 crores in 1938-39 to Rs. 32.27 crores in 1943-44 (Revised Estimate), while that of the Post Office from nothing to over Rs. 9 crores during the same period. The total contribution from railways and posts, telegraphs and telephones during the war years 1940—44 adds up to Rs. 110 crores. The net surplus from railways in 1944-45 is put at Rs. 52.21 crores of which Rs. 31.37 crores will accrue to general revenues, while a sum of Rs. 10 crores will go to form a special fund for improving the amenities of travel of third class passengers after the war.

The increase in railway revenue is due partly to increase in traffic and partly to the raising of all passenger fares (excepting fares up to one rupee) by one anna per rupee and goods freight by two annas per rupee as from March, 1940. Concessions and special rates and fares including cheap return fares have all been withdrawn.

In the new Railway Budget for 1944-45 it is proposed to increase all railway fares by 25 per cent. Public opinion on the subject is best summed up by the *Statesman* in its issue of 7th February, 1944 in the following words: "When taxation of transport is raised to the proposed new peak in conditions of worsening discomfort, it cannot be considered in the abstract. To offer such bad service at so high a

price will be an insult even during a war. It brings public service as a whole into bad repute."

The increase in revenue from Posts and Telegraphs is similarly due partly to increase in the use of these services and partly to the increased charges. As compared to 1939 the postage of inland envelopes has risen from 1 annas to 1½ annas per tola and for every successive one tola one anna instead of ½ anna. The minimum rate for ordinary telegram has been raised from 9 annas to 12 annas and of express telegrams from Rs. 1-2-0 to Rs. 1-8-0. The telephone rentals have increased by 20 per cent. with a surcharge of 33⅓ per cent. and a surcharge of 20 per cent. was levied on trunk calls. The minimum for book-post was raised by 50 per cent. to 9 pies and the inland parcels charge was also raised by 50 per cent. to 6 annas for the first 40 tolas.

13. *Increased Receipts from Currency and Mint.*—Receipts from currency and mint have also improved from Rs. 6 lakhs in 1938-39 to Rs. 10 crores in 1943-44 (Revised Estimates). Since the commencement of the war the total contribution made to central revenues by currency and mint adds up to Rs. 22 crores (inclusive of 1943-44 Revised Estimates). This is due in the first place to minting of small coins in abnormally large numbers and secondly to increasing profits of the Reserve Bank in which Government share. According to the Report of the Reserve Bank of India for the year ending June, 1943 the Reserve Bank added a sum of Rs. 7½ crores to Government revenues during 1942-43 as compared with Rs. 5 lakhs in the year ending 31st December, 1939.

Thus it will be seen that the increase in central revenues from taxation and other sources like railways,

posts and telegraphs and currency has been of no mean order. But taxation—undoubtedly the best method of financing war—has in no country sufficed to cover the entire cost of this war. Even the richest countries of the world have had recourse to borrowing to finance a war of the present magnitude.

14. *Public Debt.*—Turning to borrowing it is interesting to observe that the public debt in the United States had nearly trebled by the end of March 1943 rising from Rs. 16,803 crores to Rs. 45,210 crores. In the United Kingdom the pre-war figure of Rs. 10,373 crores was more than doubled to Rs. 20,827 crores by February, 1943. In Japan the rise was from Rs. 1,398 crores in June 1939 to 3,557 crores in June, 1943. In Germany Rs. 5,062 crores (at pre-war rate of exchange) in December, 1939 increased more than four times to Rs. 22,720 by December, 1942. Compared with these figures the rise in the public debt of India during the war from Rs. 1,206 crores to Rs. 1,439 crores by March, 1943 paled into insignificance.* During the last 12 months (February, 1943—January, 1944), however, Rs. 279 crores were invested in Government loans compared to Rs. 93 crores in the preceding 12 months. How has India managed with so small an increase in her total public debt during the war ?

15. *Receipts of Sterling and Issue of Rupees.*—It is unfortunate, but nevertheless true, that the largest portion of war finance in India has been provided not by taxation or by borrowing, but by the issue of paper currency known as monetary inflation. The process in itself has been simple enough, although it has caused untold harm to the country. Government in this

*Address of Sir Chintaman (then Mr. C. D.) Deshmukh, Governor of the Reserve Bank of India, to the Rotary Club of Bombay, 31st August, 1943.

war have had to make large payments in India for the services and goods made available to His Majesty's and Allied Governments. For these services and goods they got paid in sterling and these sterling assets were made over to the Reserve Bank in exchange for rupees with which payments in India were actually made. In this process while the total rupee note issue increased in India from Rs. 207 crores at the beginning of war to Rs. 850 crores at the end of 1943, the amount of sterling securities rose from Rs. 59.5 crores to Rs. 734.8 crores. The two roughly correspond to each other and it is unnecessary to enter into the central banking technique or complexities behind the conversion of sterling receipts into rupee payments. The process still continues, because while the budgetary deficits of the Government of India are met through borrowing, payments of other Governments' expenditure in India which are of considerable though uncertain magnitude (Rs. 300 to Rs. 400 crores a year) are received in sterling securities against which rupees are issued by the Reserve Bank of India.

16. *Gold Sales by the Reserve Bank of India.*—An additional method of war finance is the sale of gold. Since August 17, 1943 the Reserve Bank of India according to an arrangement with the Bank of England has been selling gold (bars of 1,000 tolas) in Bombay on behalf of the British and American Governments. The sale proceeds are utilised by these Governments in meeting their war expenditure in India. This information was at last given by the Finance Member to the Indian Legislative Assembly on the 8th February, 1944, but he still refused to disclose either the amounts of the sales or the profits made. One thing, however, became clear that in so far as the rate of increase per

week of notes in circulation had not fallen the gold sales which took place indicated an addition to foreign war expenditure in India, and inasmuch as the quantities of sales were not given out, it introduced an uncertain factor in the bullion market. Under the above scheme the Reserve Bank is now (February, 1944) selling to the public gold pieces or bars of one and five tolas each (stamped, but not to be used as coins) and large profits are being earned by the British Government in these sales, because of the very high price of gold in India as compared to that in England. The London price of gold at present (middle of February 1944) is Rs. 112 per ounce, while the Indian price per ounce is Rs. 177-8-0.

The best method for India to finance abnormal war requirements, apart from taxation and borrowing, would have been to produce more goods anyhow and to deliver goods in exchange for goods (not gold, but preferably machinery for the production of goods). This was not done with the result that India has been involved in heavy direct and indirect losses.

17. *Inflation and Rise in Public Expenditure.*—For in so far as inflation is responsible for a rise in prices, it results in a rise in war expenditure both directly and indirectly. The budget estimates of Defence Expenditure put down the effect of rise in prices separately at Rs. 15 crores for 1944-45. This in all probability is an under-estimate. But if prices of commodities are three or four times the pre-war level, it is not only the expenditure on defence, but even the civil expenditure which gets inflated. For instance, while the Indian soldier is fed, clothed and housed at the expense of the State, his basic pay was raised in October, 1942 and again recently, so as to

enable him to protect his family from the effects of the rise in prices. The deferred pay of all ranks was also accordingly raised. At the same time, dearness allowance has had to be sanctioned for the civil administration and the estimated cost of allowance on the present scale for a full year approximates Rs. 2½ crores excluding Posts and Telegraphs and Railways.

But the worst of the dearness allowances and rise in wages is that so long as prices continue rising they must also be correspondingly raised. This tends to set up a vicious spiral which is best ended by stopping the rise in prices and this involves stopping of inflation.

18. *Salient Facts of War-time Borrowing.*—So far as borrowing is concerned the Finance Member did stress its importance, while introducing the Budget for 1943-44, and observed that borrowing was the sheet anchor on which he relied. The salient features of the war-time borrowing are best seen in the following table :

	(IN CRORES) 1938-39	1942-43 (Revised)
In India :		
Loans ..	437.87	762.15
Treasury Bills and Ways and Means Advances ..	46.30	273.98
Unfunded Debt ..	225.13	185.65
Deposits (Depreciation and Reserve Funds) ..	27.34	90.22
Total obligations in India ..	736.64	1,312.00
In England :		
Loans ..	396.50	32.98
War Contribution ..	20.62	20.62
Railway Annuities ..	47.82	36.00
Unfunded Debt ..	4.18	3.72
Total obligations in England.	469.12	93.32
Total Interest Bearing Obligations ..	1,205.776	1,405.32

19. *Repatriation of Sterling Debt.*—The most outstanding fact of the situation is the conversion of external into internal debt made possible by the abnormally large sterling receipts during the war. The sterling debt of India is now reduced almost to a vanishing point—from Rs. 396.5 crores in 1938-39 to Rs. 33 crores in 1942-43, excluding war contribution (Rs. 20.6 crores), railway annuities (Rs. 36 crores) and an insignificant amount of unfunded debt (Rs. 3.7 crores). The total obligations in India during this period increased from Rs. 736.6 crores to Rs. 1,312 crores, but the total interest bearing debt (both rupee and sterling) rose by no more than Rs. 88 crores till the end of March 1943 over the figure of March, 1939. Further the direct money burden of the total public debt of India is estimated to be reduced to Rs. 31.76 crores in 1943-44 from Rs. 35.57 crores in 1938-39.

20. *Disquieting Features.*—These are welcome trends, but the details of the rupee debt reveal some disquieting features. In the first place, borrowing from the small persons in India has frankly failed during the war. The Post Office Savings Bank deposits and Cash Certificates which stood at Rs. 141.46 crores at the end of March, 1939, instead of increasing, declined by nearly Rs. 50 crores to Rs. 93 crores by the end of March, 1943. Before the war (end of March, 1939) the Post Office Deposits and Cash Certificates formed 19.8 per cent.—nearly one-fifth of the total rupee debt in 1943 (end of March) they were only 7.7 per cent. of the total.

Another weak spot of Government's loan policy is the undue reliance on short term borrowing which

has registered the largest increase during the war years. The Treasury Bills rose from Rs. 46.30 crores at the end of March, 1939 to Rs. 264.70 crores on the same date in 1943—being 6.5 per cent. of the total rupee debt in 1939 and 21.9 per cent. in 1943. The increase in the Treasury Bills, according to the Reserve Bank Report on Currency and Finance for 1942-43 (page 40), is due to (*i*) deterioration in the revenue position, (*ii*) need of providing for the defence capital expenditure and (*iii*) financial operations connected with the funding of the railway debentures. The causes are there, but the character of finance is open to criticism. "The Eastern Economist" (August 20, 1943) is quite right in suggesting that Government should rely more on long term than on short term borrowing, particularly in view of the abundance of funds in the money market and the need for plenty of long term borrowing in the immediate post-war era of economic reconstruction.

During the war the proportion of long dated bonds has shown a marked decline. Loans over 10 years formed 18.3 per cent. of the total rupee debt at the end of March, 1939 and 19.7 per cent. at the end of March, 1943, while loans between 5 and 10 years declined from 15.9 to 7.6 per cent.

The total receipts from the various Defence Loans up to the 31st March, 1943 amounted to Rs. 170.26 crores as detailed below*:

***Report on Currency and Finance* for the year 1942-43, page 44.

At the end of—	(IN LAKHS OF RUPEES) 1940-41	1941-42	1942-43	Total.
1. Three per cent. Six-Year Defence Bonds :				
(a) First Series ..	71	..	..	71
(b) Second Series ..	44,43	..	..	44,43
2. Three per cent. Second Defence Loan 1949-52	3,47	55,69	..	59,16
3. Three-Year Interest-Free Bonds ..	2,33	34	39	3,06
4. Defence Savings Certificates ..	3,41	2,81	2,01	7,23
5. Post Office Defence Savings Bank ..	..	11	29	40
6. Three per cent. Loan 1951-54, Third Defence Loan) ..	..	..	40,27	40,27
7. Three per cent. Loan 1963-65 (Specia Issue)	..	..	15,00	15,00
Total ..	53,35	58,95	57,96	170,26

The Budget for 1944-45, however, reveals two new trends in the programme of public borrowing. Firstly, the subscriptions to the Defence Loans during the period beginning with the 1st February, 1943 and ending with the 31st January, 1944 amounted to a record figure of Rs. 115 crores. Secondly, the field of small savings was also well cultivated during 1943-44 in various ways *e.g.*, introduction from 1st October, 1943 of twelve-year National Savings Certificates encashable for the first three years, but yielding to maturity nearly 3½ per cent per annum compound interest free of income-tax, and raising from the same date the rate of interest on Post Office Savings Bank Deposits from 1½ to 2 per cent. The result is that transactions in all forms of small savings are now yielding net deposits at the rate of over Rs. 2½ crores a month in place of the large net withdrawals in the preceding years.

"A revolutionary moment in the world's history is a time for revolutions, not for patching."

—Sir William Beveridge.

VI. INDIAN ECONOMY DURING THE WAR

1. *Position before the War.*—For many years before the war Indian economy was known to be backward, unintegrated and unbalanced.* Economically India constituted the weakest link in the chain of civilised countries of the world. With all her human and natural resources, according to the pre-war estimates the per capita income in India was only Rs. 65 as against Rs. 218 in Japan, Rs. 792 in Australia, Rs. 980 in the United Kingdom, Rs. 1,038 in Canada and Rs. 1,406 in the United States.†

2. *Our Five Enemies.*—Low per capita income, however, need not necessarily imply low economic welfare. The true test of the strength or weakness of an economic system is how far it enables the people to overpower their five enemies or what Sir William Beveridge calls the five giants, *viz.*, Want, Disease, Ignorance, Squalor, and Idleness. Judged by this criterion the pre-war economy of India made a poor showing.

Take first the question of food without which one cannot live. According to Dr. Aykroyd, the Nutrition Expert of the Government of India, a very considerable

*See *Sir Manohar Lal's Presidential Address to the Indian Economic Conference at Dacca*, 1934.

†The figure for India is for 1931-32. The figures for foreign countries are from *The Conference Board Economic Record*, August 3, 1939 quoted in a *Plan of Economic Development for India* by Sir Purshotamdas Thakurdas and Others, 1944.

proportion of the population did not in normal times, get enough to eat and a still larger proportion did not receive a really satisfactory diet. Another eminent authority whose qualification for speaking on the subject cannot be questioned, Sir John Megaw as Public Health Commissioner of the Government of India, nine years ago observed that 61 per cent. of the people in India and 78 per cent. of the people in Bengal were either 'poorly' or 'very badly' nourished.

The problem was primarily economic. With a purchasing capacity of only about 2½ annas a day, the average Indian was able to meet his energy requirements, if at all, with cheap carbohydrate foods like rice, and could not afford sufficient protective foods. Deficiencies in diet such as animal protein, calcium and vitamins A and C were widespread. The result was poor physique, high maternal and infantile mortality rates and a low expectation of life. In a single year before the war over 8 lakhs of people died in Bengal from cholera, malaria, tuberculosis and enteric ; diseases and consequent deaths were encouraged by malnutrition and very low living conditions.* Half the mortality recorded in the whole of India occurred in children under ten years and malnutrition was one of the chief causes. The average life of an Indian was said to be 27 years as against 62 years for an Englishman or 65 for an Australian.

Regarding clothing and housing, two other essentials of human life, the Indian climate and habits make but a modest demand on the country's economy. The results of several pre-war village surveys have revealed, however, that the position was far from satisfactory.

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*_The Economist_, London, October 30, 1943, p. 576.

On the pre-war figures the consumption of cotton piece-goods was said to be 16 yards per head per annum, as against a minimum of 30 yards required according to the National Planning Committee. Moreover, even the pre-war average of 16 yards is misleading, because the common people simply had not the purchasing power to buy either enough food or enough cloth. As for housing, it was extremely poor throughout the country, but particularly so in the industrial areas. The average floor space per person in the industrial areas of Bombay was 27.58 sq. feet as against the minimum requirement of 100 square feet according to the Plan of Economic Development for India prepared by Sir Purshotamdas Thakurdas and other industrialists. According to an American comparison, dwelling houses represented 22 per cent. of the total national wealth in Germany, 21 per cent. in Holland, 16.5 per cent. in U.S.A. and Great Britain and 7 per cent. in India.*

Regarding provision in the country for education, health and sanitation, it was very little and for old age and unemployment there was still less. The percentage of illiteracy above the age of 5 in India in 1939 was more than 85, while in other principal countries it was less than 20. As for medical facilities, according to Dr. John B. Grant for every 9,000 persons in India there was only one doctor and for every 86,000 persons only one nurse available, as compared to one doctor per 776 persons and one nurse per 435 persons in the United Kingdom.† The pre-war estimate of unemployment in India was five to six crore persons and of under employment was much greater.

**Journal of the Indian Merchants Chamber*, Bombay, October 1943, p. 290.
†*The Health of India* by J. B. Grant, Oxford, 1943, pp. 24 and 25.

3. *Failure of Indian Economy.*—Pre-war Indian economy thus altogether failed to provide freedom from want, disease, ignorance, squalor and idleness.* But in its existing form it also held out no prospect of such freedom in the near future. The trouble was one mainly of cost. We had, unfortunately, got ourselves into a vicious circle. We could not afford expenditure on social services for ensuring health, education and employment, because we were poor, and we were poor, because we lacked health, education and employment. What was required was to lift our entire economy by all available means from its prevalent plane of increasing depression and reconstruct it on a newer and higher plane of increasing prosperity.

4. *New Provincial Governments of 1937.*—The formation of popular ministries in 1937 in all the Indian provinces, breathed a new life into the country. The new provincial governments were sincerely engaged in devising ways and means to improve the economic position of the Indian peasant and under the aegis of the Congress Ministries a National Planning Committee with Pandit Jawahar Lal Nehru as Chairman undertook an all-India survey for the economic reconstruction of the country. With the outbreak of the War in September, 1939 the Congress Governments which were in office in seven out of the eleven provinces resigned simultaneously on the ground that the British Government had declared India at war with Germany without so much as consulting either the Indian Legislative Assembly or the provincial governments.

*According to the *Civil and Military Gazette*, Lahore (December 11, 1943, p. 2) "Indian standards of living, of education and of medical attention are a reproach to the nation whose Government was for so long in complete control of this country." So it still is to no less a degree.

5. *Political Discontent and its Repercussions on Indian Economy.*—Thus the war gave rise to the greatest discontentment with Government that the country has ever experienced in recent history. There could be no greater proof of the inability of the British Government to satisfy Indian opinion than the fact that the two main political parties, the Indian National Congress and the All India Muslim League are right from the beginning of the War not co-operating with the Government in their war activities. Indeed, all the Ministers of Indian provinces who resigned at the outset of the war sought for an increase of freedom in India, but got various terms of imprisonment. Nor was the distrust in the British Government's intentions towards India confined to the members of the two chief political organisations, it permeated all classes and communities throughout the country. Public opinion is best summed up in the words of the Rt. Hon'ble Sir Tej Bahadur Sapru whom even his opponents, if any, will not accuse of being given to exaggeration. "I am bound to say," said Sir Tej, "that I have never in my forty-five years' experience seen the average Indian being more critical of Government than at present. This may hurt the pride of the Government or the officials, but I think they ill serve India and England at this juncture, who whether they are Indians or Englishmen, delude themselves into a false sense of security or overrate their powers to ride the storm or tell the British that it is only the disaffected politicians of one party or another who are withholding their co-operation or are critical of the Government.*" Indians were, as they still are, no

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**The Tribune*, Lahore, February 22, 1942, p. 3.

The same opinion was expressed by Mr. M. A. Jinnah in the following words: "The British Government has to get the whole-hearted support of some party in this country, if not of all; but every party is kept at arm's length and dissatisfied." (*The Statesman*, Delhi, December 31, 1943, p. 2).

doubt in a mjority in the Viceroy's Executive Council, but according to Sir Tej again, " It is not the question of the number of Indians in the Cabinet which matters, but what does matter is the power which they wield, the freedom of action which they enjoy and the amount of influence which they exercise with their own countrymen. In that respect the Government of India is totally bankrupt."*

Such political discontent could not be without its repercussions on the economy of the country and it was most unfortunate that an additional and avoidable strain was placed on Indian economy which was already so weak.

6. *Lack of Economic Co-operation and Unity.*—But not only was full co-operation lacking right from the beginning of war between the peoples of India and the Government, it was conspicuous by its absence even between the respective provincial governments and the Government of India at a time, when it was most needed. This became quite obvious and it caused the greatest harm in the all-India food crisis, when the provinces behaved towards one another, as if they were separate countries with inimical interests owning no allegiance to the Centre.

To begin with, the provinces would not agree either to the amounts of their respective surpluses or deficits in foodgrains or to the basic plan which the Central Government arrived at from an all-India point of view. But some of the provinces did not keep even to their promised performances in this regard with the result that as against 14½ lakh tons of various kinds of

*The Right Hon'ble Sir Tej Bahadur Sapru's statement to the Press dated Allahabad, February 20, 1944.

foodgrains which the Centre should have received in April, May and June 1943, from the surplus provinces, it could obtain just about 5.7 lakh tons for distribution among the deficit provinces and States.

Faced with a serious food situation in Bengal the Government of India introduced free trade in the Eastern zone, but all kinds of obstructions were at once placed in the way of free movements of food supplies. The stocks of foodgrains purchased by official agents of Bengal were requisitioned by local officers, the stocks purchased were ordered to be surrendered sometimes at a much lower price than the purchase price, stockists were ordered to close down godowns, traders were warned not to sell, station masters were asked to refuse wagons, carters and carriers were stopped from assisting movements, export was banned by peremptory orders, goods were seized in transit, purchasing agents were harassed and put into prison.* Thus the free trade plan of the Central Government was effectively torpedoed by the actions of the very provincial Governments from whom co-operation was sought and some of the Governments were, as they still are, administered directly by the Governors and not by the peoples' Ministries.

At the same time, co-ordination was lacking even between the Departments of the Government of India *e.g.*, Food and Transport Departments. Just when the eastern provinces failed in their duty by the people,

***Legislative Assembly Debates*, 9th August, 1943, Vol. III, No. 11, p. 542. According to Sir Aziz-ul-Haque, the then Food Member, among those who complained were General Managers of Railways, the Chief Mining Engineer of the Railway Board, the Price Administrator of the Indian Mining Association, the Officer-in-charge of rice supplies to aerodrome construction, Bengal Chamber of Commerce, Muslim Chamber of Commerce, Indian Chamber of Commerce, National Chamber of Commerce and industrial concerns, besides many traders and purchasing agents.

arrangements were hurriedly made with the Punjab for the despatch of foodgrains to Bengal. But the Transport Department of the Government of India was unable to provide necessary transport facilities—partly due to operational difficulties and unavoidable bottle-necks, but partly due to lack of efficient organisation and sufficient co-ordination. Complaints were made that sometimes there were foodgrains lying on railway platforms to be moved, there were wagons lying empty in railway yards and yet such was the inefficiency that the two could not be brought together.

7. *Lack of Economic Data.*—To the lack of co-operation of the people and of the economic unity of the country was added lack of scientific economic data. Economic statistics for the most part either did not exist in India, or were unreliable before the war. Although the Government of India had invited in 1933 Professors A. L. Bowley and D. H. Robertson to advise them on the question of economic census of India, no action had been taken on their recommendations. Nor was any serious attempt made to repair the deficiency during the war.

Thus to begin with, there was no accurate knowledge of the flow of resources in different occupations and places or of the total production* or consumption in the country. Indeed there were no data of a trustworthy character in respect of either the costs of production of even India's major crops or of the cost of living of the agriculturists. The Calcutta index number of wholesale prices, as every one knows, was wholly unreliable, while internal trade movements were not known with any degree of scientific precision

*Even to-day the area records in the permanently settled areas are completely defective, while the out-turn records are everywhere unreliable.

even to Government departments. For instance, in July and August 1943, the Railway Department produced a set of figures regarding movements by rail of wheat from the Punjab to Bengal, but their accuracy was at once openly challenged by both the Bengal and the Punjab Governments. Again, until the time of writing (February, 1944) the figures of deaths from famine in Bengal were unknown to the central or even the provincial government. In a word, India was behind almost all other countries in her economic intelligence service and the ignorance of her administrators in the economic sphere was surpassed only by the ignorance of her people.

8. *Conversion from Peace to War Economy.*—With the outbreak of war in 1939, conversion from peace to war-time economy was most rapidly achieved in the United Kingdom through a comprehensive system of controls over production, consumption, trade and transport, money, banking and foreign exchanges and public finance. "We are not a totalitarian state," said Mr. Winston Churchill, in the House of Commons on July 29, 1941, "but we are working ourselves into a total war organisation." The aims of the economic controls were: (1) maximum production for war by the fullest and the best employment of all resources of the nation, (2) maximum diversion of resources—goods and services from civilian to war use, (3) ensuring essential supplies—no more and no less than absolutely necessary—of food, clothing and shelter to all the people of the country—rich or poor, (4) equitable distribution of consumers' goods in quantities such as the nation could afford in her own circumstances and (5) maintenance of a properly integrated price-wages-income structure.

Thus in the United Kingdom everything was well planned on the economic front right from the beginning of the war, and her economic strength, as developed by the end of 1943, was unequalled at any previous time in her history. India, on the other hand, with an inherently weak pre-war economy, an increasing volume of political frustration and economic non-cooperation, along with the lack of economic unity and widespread scarcity of economic statistics and knowledge, was incapable of planning on a sound economic basis. Further in planning their war economy the Government of the United Kingdom utilised the services of their best economists. Judging from the half-hearted and vacillating manner in which the Government of India proceeded, it is very doubtful if even their official Economic Adviser had much to do with such economic controls as were introduced in India, at any rate in their initial stages. The position was thus worsened by the failure to get expert economic advice. The initial mistake of the Central Government was to try and tackle each problem of economic control separately, with little or no reference to allied problems or to varying conditions in different parts of the country. The second mistake arising out of the first was to start at the wrong end with price controls followed by consumption and production controls instead of beginning with production and consumption controls leading up to the price controls.

9. *Economic Controls in India.*—The first control to be introduced into Indian economy from the moment war broke out was in regard to the export trade, prohibiting the flow of all goods to enemy countries and restricting and regulating the flow of goods to neutral and friendly countries in accordance with war needs

and shipping scarcity. The export control was followed in March 1940 by the control of foreign exchanges with a view to conserving dollar resources and regulating foreign trade. The control of the import trade was not inaugurated until May 1940, but became increasingly stringent thereafter, as the war developed in the West and particularly so with the extension of war to the East. Little need be said about these controls here, as they have been examined already in the third chapter.* Generally speaking they succeeded in controlling both foreign trade and balances in foreign countries, although as a consequence India suffered on account of the scarcity of consumers' goods as well as the depletion of her dollar resources.

But more important in a way than the trade controls are the commodity controls—although the former could do much to aid the latter—for the maximisation of home production for war needs and the equitable distribution of the heavy sacrifices which a totalitarian war inevitably entails on all belligerents.

10. *Wheat Control.*—The first important commodity control was launched by the Government of India on December 5, 1941 by prohibiting whole-sale transactions in wheat at a rate above Rs. 4-6 per maund, at Lyallpur and Hapur, and authorising Provincial Governments to determine the maximum price at any other market "having regard to the normal relation between prices at such place and at Lyallpur or Hapur." On December 30, 1941, a Wheat Commissioner for India was appointed to supervise and co-ordinate the control operations. On the 28th March, 1942 the Government realising that the maximum

*See page 62 *et seq* above.

price of Rs. 4-6 was too low, revised it to Rs. 5 for Lyallpur and Hapur and to Rs. 5-4 for Mirpurkhas and Nawabshah in Sind which were found to require special treatment.

On 30th April, 1942 the Wheat Control Order was notified regulating movements by rail from exporting provinces to consuming areas by permits to be issued by the Wheat Commissioner, and permitting the Provincial Governments to control movements by road or river. This right was, however, taken away from the Provincial Governments on the 29th May, 1942, but was restored to the Punjab Government on the 20th July, 1942, on their representation that they were losing large quantities of wheat to areas across the border by road. On the 21st May the Foodgrains Control Order empowered the Provincial Governments to license wholesale dealers in foodgrains and to require returns of their transactions and on the 28th May "Futures" and "Options" in foodgrains were prohibited in order to check speculation. But all these orders combined were of little avail to control the prices of wheat, because the basic conditions for success were lacking namely control over existing stocks and their distribution, inter-provincial co-operation and co-ordination, and an administrative machinery in all provinces and States familiar with the task, honest in the discharge of its duties, and amenable to discipline from the Centre. The result was a country wide fillip to speculation, hoarding and cornering by middlemen and a virtual disappearance of wheat from the markets. At the same time, since the control of prices was confined to wheat alone the price of other foodgrains rose freely, so that *Bajra* became dearer than wheat.

Not only was the wheat control ill conceived and ill timed, it was also badly administered in different districts of several provinces. To give only a few instances, in some places like Bombay the price of wheat alone was fixed with the result that wheat was converted into *ata* and sold at any price. Again in the Punjab and the United Provinces which are the main wheat producing areas individuals were prohibited from stocking more than 20 maunds of stocks, while in Bombay up to 100 bags of wheat were allowed, but no limit was placed on stocks of wheat flour. Some districts with surplus stocks of wheat were not allowed to export wheat, while the districts lacking in wheat were not allowed to import it ! To make matters still worse, the transport system failed, just when it was most needed, to meet the urgent needs of deficit areas.

After trying unsuccessfully for over a year, the Government of India gave up their attempt to control the wheat prices. On the 24th January, 1943 wheat was decontrolled. Immediately the market price of wheat in Lyallpur veered round Rs. 12 per maund, but later there was a drop to Rs. 10 which level was maintained till the end of the year. Early in 1944, however, consequent upon the Government planning to introduce a better type of price control, the retail price of wheat in the Punjab was in the neighbourhood of Rs. 9-8.

11. *The Foodgrains Control Order.*—The Foodgrains Control Order issued in May 1942 was an attempt to control supplies in addition to prices, since the price control of wheat by itself was not found to be successful. The two main purposes of this Order were (*i*) to segregate the legitimate trader from the speculator and (*ii*) to

secure information of wholesale stocks and their movements. It provided that all persons other than producers of foodgrains, engaged in any undertaking involving the purchase, sale or storage for sale in quantities exceeding 20 maunds in any one transaction of any of the specified foodgrains shall be required to apply to the Provincial Government for a licence. Licences were to be issued free of charge to all established dealers, millers and other *bona fide* manufacturers of food products so as to leave the normal channels of trade undisturbed. Licence holders were required to keep accounts in the prescribed manner and to submit monthly return of their purchases, sales and stocks. The order originally applied to the major foodgrains, but minor millets and pulses were added to its schedule subsequently at the instance of the Provincial Governments.

All provinces and States were asked to enforce the Order as early as possible, but they took their own time, Bengal being last of all, and although nominally in force every where by the end of 1942, the Order was not taken seriously either by the people or by the Provincial Governments. Delays and falsifications in making returns were common and not much effort was visible either to collate or utilise such information as was received. Thus most areas—notably Bengal—were without any accurate information of stocks, when the food crisis developed in the summer of 1943. The Foodgrains Policy Committee stressed the need for strict enforcement of the Foodgrains Control Order with a view to recording the disposition of stocks from time to time as an essential to an all-India plan of Food Administration. The Committee also suggested

an amendment of the Order so as to deal separately with (*a*) traders (*b*) cultivators and (*c*) consumers' stocks.*

12. *Cloth Control.*—The control relating to the cotton textiles industry, however, was an improvement upon both the wheat prices and foodgrains control inasmuch as the cloth control covered both output and prices in its scope. Moreover, this control was exercised through the Cotton Textiles Advisory Panel—a body drawn entirely from the representatives of the industry.

By the Textile Control Order promulgated in June, 1943 the country was zoned into nine blocks for regulating cloth distribution and five regions for controlling the movement of raw cotton. After playing with the scheme for the production of standard cloth for a long time it was at last decided in 1943 to produce 2,000 million yards of standard cloth and immediate action to this end was taken. Attempt was also made to control factors causing higher costs, namely those of raw cotton, mill-stores and wages as part of the plan to control cloth prices and some success was achieved in the case of the first two factors. Prices considered as fair to manufacturers, dealers and consumers were fixed for 20,000 types of cotton cloth representing every variety produced in India. All the mill produced cloth was required to bear a stamp of price and quality from August, 1943 onwards. The dealers were given six months to disgorge their old stocks and no less than 1950 million yards were disgorged. Now all cloth must be sold within six months of its packing by the mills and control over woollen goods is also being introduced.

**The Foodgrains Policy Committee Report*, Delhi, 1943, page 112.

The cloth control, however, is of little avail to increase output in the face of shortage of coal and the limitations set by the capacity of existing machinery in India to manufacture cotton piecegoods. The prices of cloth compared to those before the war have no doubt fallen from 500 per cent. in the early months of 1943 to 300-400 per cent. by February 1944, but they are still beyond the means of the ordinary consumer. Moreover, with the recent stringency in the exercise of commodity controls not only cloth but many other consumers' goods whose prices are fixed by Government have gone under-ground and are not easy to get in the markets.

13. *War and Agriculture.*—The worst sufferers due to the failure of economic controls in India are without doubt Indian agriculture and the people in general. The Bengal Famine as well as the Food Conference held at Hot Springs, U.S.A., in the summer of 1943 have given point to the fundamental weaknesses of the agricultural economy of India and the war itself has raised and brought to the forefront many problems in the field of Indian agriculture, such as planning of production and distribution, an adequate and efficient transport system essential to a country like India with surplus and deficit areas separated by long distances, maintenance of minimum stocks, control over costs of production and prices, regulation of exports and imports—problems in attempting to solve some of which both the central and provincial governments have so bungled that they have often created new and additional problems. Mr. M. A. Jinnah, the Muslim League leader, was only voicing public sentiment, when speaking in the Indian Legislative Assembly on the recent food debate, he said: "You cannot

get away from the charge that you have been guilty of gross negligence, you have failed to discharge your duties and responsibilities."

The war has re-iterated for India many old lessons, *e.g.*, improvement of agricultural statistics, better and more economical use of land, manufacture and use of artificial manures and the diversion of natural manures from their use as fuel to the improvement of land, conservation and improvement of the cattle wealth of the country and need for mixed farming. But, by and large, the greatest lesson of this war for one and all is the basic importance of the economic unity of India comprising not only the various provinces, but also all the Indian States. In this regard, India will do well to remember the famous words of Benjamin Franklin (July 4, 1776) "we must all hang together; or assuredly, we shall all hang separately." His Excellency the Viceroy is quite right in saying: "You cannot alter geography. From the point of view of defence, of many internal and external economic problems, India is a natural unit.*"

14. *Effect on Industry.*—Turning to industry the war was expected to produce the greatest improvement in the field of Indian industry. But judged by any of the recognised tests such as structural advance, increase in physical production, or full employment of available human or natural resources, India has not much to show. It is a sad reflection on the organisation of her war economy that with all her human and natural resources in which few countries come up to her, she has not yet taken to any of the heavy war industries,†

*H. E. Lord Wavell in his first Address to a Joint Session of the Central Legislature, February 17, 1944.

†A report like the Grady Report was suppressed, although it is alleged that it advocated the starting of heavy industries helpful in making India a strong base for the war against Japan.

while such industrial progress as has taken place in the country directly due to war is somewhat artificial and temporary in character rather than real and permanent.

Further more, the war is responsible for several new evils of which the worst is the continuous deterioration of machinery and the malnutrition of labour. Many of the industrial plants in India have now become obsolete owing to the rapid technical advancement in industry all the world over. A number of industrial factories in India possess but makeshift contrivances to-day whose working is made possible by wartime inflated prices. The moment the hostilities come to an end, the worn out or obsolete plants will be of no earthly use. At the same time, labour too has been worked much too hard during the war without sufficient regard either to the need for better living conditions or nutritive diet. This must tell, as it has been telling, on the health of industrial labour and this is a serious factor which will have to be reckoned with at the end of the war.

The war has also widened the gulf which already existed between the labourer and the capitalist. This is largely because, while the industrialists in India have recently experienced unprecedented prosperity, the underpaid labourer continues to be underpaid in spite of the increase in wages and dearness allowances.

On the whole, there is substantial evidence for the view that Indian industry during the war is falling behind its competitors in its degree of both mechanisation and rationalisation—that is in quality as well as in strength. The post-war danger in India is industrial collapse, while the post-war need is industrial expansion.

15. *War and Indian Trade.*—The actual statistical position of Indian trade during the five years, 1939 to 1944 is hard to tell, because complete statistics are not published. But some broad facts have stood out. Firstly, India has ceased to trade with practically the whole of the continent of Europe barring U. S. S. R. which can only be reached overland and with East Asia. Secondly, in spite of the loss of many old markets the value of India's exports has so much increased over her imports that she has been earning unusually large balances which she has accumulated in sterling assets over and above large scale repatriation of sterling debt. Thirdly, straight jackets of war-time controls are most effective in the case of Indian trade which have resulted in an acute scarcity of consumers' goods and even foodgrains in the country. Indian exports include a wide range of commodities and manufactured goods which are required by the Allies ; imports are restricted to those things which are regarded by Government as essential for the maintenance of the Indian war effort. That machinery for the manufacture of both producers' and consumers' goods does not form an important item among the imports allowed during the last quinquennium is the greatest criticism of the war-time controls of Indian trade.

16. *War and the Money Market.*—In February, 1944 the Reserve Bank of India reported notes in circulation at Rs. 870 crores—a rise of over four and a half times since 1st September, 1939. At the same time the Capital Index of Industrial Activity (Base—1935), at its highest at 129.6 in November 1941, was 108.9 in April 1943 and had dropped down to 98.5 in August 1943. The Capital Stocks and Shares Index,

however, had advanced from 100 in August 1939 to 216.9 in November, 1943. The average monthly price of gold (country bar per tola) was Rs. 37-7-2 and of silver (country bar per 100 tolas) Rs. 59 in August 1939, while the price of gold was Rs. 72 per tola and of silver Rs. 124-10-0 in February 1944. Thus on the one hand, there was a large increase in note issue accompanied by "omnipresent and cumulative shortages" of consumers' goods and on the other hand, there was hectic activity in shares and bullion markets fanning inflation. No wonder the Finance Member was furious and he declared in March, 1943: "I have rarely seen a more disgusting or disgraceful spectacle than that which has been provided by the Bombay Cotton Market during the last few days. There is no justification to run up the prices of cotton as has been done. If they indulge in this type of action, Government will mobilise the whole of its resources in order to defeat and to crush them. I have learnt a lesson from the behaviour of the market, and if the speculators think I said the last word on 27th February, they may find that they were badly mistaken."

Throughout 1943 the Government of India were busily engaged in fighting speculation and attempting to hold up the prices of consumers' goods by the issue of a series of Control Orders, *viz.*, abolition of hedge contracts in the cotton market (later allowed), control of capital issues, prohibition of speculative dealings in bullion and oil seeds, limitation of advances against commodities, Cotton, Cloth and Yarn Control Order, Anti-hoarding and Profiteering Ordinance, and the like. But he would be a bold man who would assert that the currency crisis had been tided over during 1943-44.

As for the banking system; much of the extension which has taken place during the war has been haphazard, unbalanced, ill conceived and unco-ordinated. The new banks are at present experiencing artificial prosperity, but the test of their soundness will come at the end of the war and in the meantime the Reserve Bank of India is largely a silent spectator of the uneven tenor of their ways.

17. *War and Finance.*—The finance of war in India, for a variety of reasons into which it is unnecessary to enter, compares most unfavourably with the methods pursued in the Allied countries. In the first place, the weight of taxation has been inequitably distributed between the various income groups, the lower income groups being the worst sufferers. Secondly, the Excess Profits Tax on the one hand, does not take the entire war profits which it should and on the other, does not ensure sufficient funds to Indian industries for their full and prompt re-equipment, as soon as the hostilities come to an end. This has been assured to British industry by the Chancellor of the Exchequer, but Indian industry, whose need is far greater, is still left to wait and see. Thirdly, the encouragement of thrift and small savings has not been properly planned in India or it could have made its own valuable contribution both during the war and in the era of post-war reconstruction. Fourthly, the practice of inflation during the war is the direct negation of sound financial control and if it is followed by deflation, as it might well be, the process is bound to cause further injury to Indian economy. Finally, the problem of war finance has not been viewed and tackled, as a whole, with an eye to post-war reconstruction. For instance, in the United Kingdom, the Chancellor has planned

war finance as an integral part of the finance of the entire economic activities of the nation—both private and public—and has shown both knowledge and determination to close the 'inflationary' or 'deflationary' gap, as and when either might arise. India remains as far removed from such an ideal now, as it was before the war.

18. *Need for a Planned Economy.*—The foregoing analysis amply shows how Indian economy has failed either to make that maximum contribution to war effort of which India is capable or to provide for the people adequately even the very necessaries of life, *viz.*, food, clothing and housing. Indeed the country has experienced during the war a food shortage, a cloth shortage, a house shortage, a coal shortage, a paper shortage, in fact a shortage of many small and large consumers' goods whose prices have at the same time risen beyond the means of most Indians.

There is no doubt that after the war, the economies of different countries of the world will be planned economies and there is already much talk of planning Indian economy *after* the war. But the immediate need of India is to plan her economy *during* the war and right now, if the conditions are not to be allowed to deteriorate still further. As Lord Keynes once put it, in the long run it all works out all right, but in the long run we will also be dead. Planning of a country's economy must be a continuous process, although the emphasis on various things has of necessity to be different during war from that in times of peace.

19. *Industrialists' Plan of Economic Development.*—Seven prominent industrialists and one eminent economist led by Sir Purshotamdas Thakurdas have

just published a plan of economic development for India which undoubtedly is the most valuable contribution so far made to the discussions on post-war planning in the country. The plan views the whole problem from the angle of national needs in the sphere of (*a*) food, (*b*) clothing, (*c*) housing, (*d*) education and (*e*) medical relief. The plan proposes to transform the present predominantly agricultural economy of India into a more balanced economy, 40 instead of 53 per cent. of the national dividend to accrue from agriculture, 35 instead of 17 per cent. from industry and 20 instead of 22 per cent. from services. In the field of industries the plan rightly gives the first place to the basic industries which include Power (Electrical), Mining, Metallurgy, Engineering, Machinery of all kinds, Chemicals, Armaments, Transport, Railway engines, Ship-building, Automobiles, Aircraft, etc. The total cost of the plan is estimated at Rs. 10,000 crores spread over a period of 15 years. Three five-year plans are proposed at the end of which period the national income of India would be trebled, or doubled if allowance is made for the increase of population in the meantime and at the present rate.* The plan deserves careful examination by an expert Committee or Commission.

But the plan is admittedly incomplete, because it leaves out for future consideration the problems of distribution, control of agriculture, control of industry and control of other economic activities. These are important questions, but at first two questions may be asked: For what is post-war economy of India to be planned? For whom is post-war economy of India to be planned? In this connection the

*A Plan of Econimic Development for India by Sir Purshotamdas Thakurdas and Others, Bombay, 1944.

authors of any post-war economic plan can easily do worse than remember the following words of Pandit Jawahar Lal Nehru:

> "*No social or economic structure which does not provide work and security to the people can endure. In India we have thought too long in terms of the upper groups and ignored the vast numbers of peasantry. This can no longer be done and the forgotten creature, the Indian peasant, who has borne so many grievous burdens for centuries, must find relief, and secondly, advancement in our plan.*" (*Note to National Planning Committee, August* 30, 1940.)

If planning is to be for the common people, one thing is certain and that is that much of the dead weight of privilege which at present fills every nook and corner of India will have to be cleared away. Agriculture will have to be freed any how from the evil consequences of absentee landlordism with which it has so long been fettered. Industry will have to be freed from the restrictive control of financiers and from that nepotism which often puts wrong men in charge of operations. Banking will have to be saved from that ignorance, inexperience and speculation which have invaded Indian banking during the war. In a word, the whole life of the people will have to be bettered and not merely the economic conditions of a few who some how grab power—be it financial or political.

20. *Principles of Planning.*—India, it is painful to say, has already lost much valuable time. Other countries have been busy gathering valuable information and experience in economic methods, perfecting

their economic controls and economic machinery for the administration of these controls, and preparing not only their post-war plans, but clearing the way for their introduction without loss of time. India lacks even the primary economic data on which any scientific plan must be based. It is time that she began at once with a National Planning Commission which, without wasting any more time in fruitless investigations into past mistakes of which there are plenty, should produce a Plan which will give India her economic prosperity. Whatever plan, however, the Planning Commission may give us, certain basic principles stand out which no economic plan can ignore except at its peril.

1. Firstly, the planning must be for all and not for a few. Further, it must be an over-all planning, and not planning of certain areas or sectors of life.

2. Secondly, planning must be rooted in the economic unity of the country and the closest co-operation of the people.

3. Thirdly, the plan must be understood by the people and approved by them.

4. Fourthly, planning demands from the civil servants capacity to think, initiative to act up to new situations and wide sympathy to cultivate contacts with the people.

5. Fifthly, if any part or rule of the plan does not fit actual life, preference must be given to life. In other words, the plan must not be wooden, it must proceed on the methods of "trial and error."

21. *Material Contribution of Moral Values.*—In the end, it is necessary to point out that during the present war India is experiencing not only an acute shortage of food, clothing and other consumers' goods, but also a decline in moral values—most of all Truth

and Honesty and Love. "Truth," according to the Lord Bishop of Lahore "lies at the bottom of an abyss where the Nations of the world have thrown her.*" No nation of the world to-day can claim to have an abundance of honesty. Ceylon, India's neighbour, had a Bribery Commission the other day as a result of whose findings eight Members of the Ceylon State Council—three Englishmen and five Ceylonese—had to be removed from the Council. In England herself—next to U.S.A. the richest country in the world and richer than U.S.A. in her foreign possessions, high officials of the Scotland Yard—an institution known for its efficiency and honesty—were accused of dishonesty and serious notice had to be taken of the charge. In India bribery, corruption and dishonesty are as rampant as they can be, and 'honesty' is 'no longer the best policy.' As for Love, there is no love lost between the Hindus and the Muslims the two great communities of the country, or between the Provincial Governments and the Central Government, or between the people and Government.

His Excellency Lord Wavell certainly means well in setting for himself the task of solving the economic tangle first—the food problem, inflation and all that. But it is a most formidable job, because the economic issues are entangled with the moral issues. The post-war problem of India, as of other nations of the world, is not only economic rehabilitation, but also, and as a condition precedent to it, moral rehabilitation. One can but hope with the Lord Bishop of Lahore that "India with her spiritual heritage going back possibly further than any nation in the world including China . . . will play its part in helping the world to regain its sense of spiritual values.†'

**Convocation Address* by the Rt. Rev. G. D. Barne, Bishop of Lahore University of the Panjab, December 22nd, 1943.

†*Ibid.*

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